THE UNITED STATES IN WORLD AFFAIRS

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B-H

FOREWORD

THE collection, selection, and organization of the material and the writing of the text of this survey are the joint product of Walter Lippmann, William O. Scroggs, and Charles Merz, the collaboration being carried out under the direction of Mr. Lippmann, with the advice and concurrence of the Research Committee of the Council on Foreign Relations. The committee has not attempted, however, to influence the result. The authors have been left wholly free to present their arguments and state their conclusions in their own way.

Two objectives have been held in view—research and timeliness. If the authors had deliberated longer the fruits of their research would have been more mature, but the time would also have passed when they would be most useful. Events press the public and government relentlessly. We believe this book to be a contribution to the understanding of many current problems, financial and political, for which solutions must be found forthwith. First-hand observations and personal contacts with leaders here and abroad are reflected in the balanced judgments of the authors no less than in the marshaled facts upon which their conclusions rest. The sources include not only books but individuals and documents not generally accessible to students of international affairs. Interviews with statesmen in European capitals and Washington have played a part, and there are also interwoven the direct observations of the authors at the Disarmament Conference at Geneva and the Imperial Economic Conference at Ottawa. The results we believe to be of value to a puzzled world.

For the Research Committee
ISAIAH BOWMAN, *Chairman*

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In the preparation of this volume, the second of the series, the authors have had the coöperation of many who are in close touch with the foreign relations of the United States. To make acknowledgment to all of them is impossible. For expert criticism of certain portions of the book, they are indebted to Messrs. George H. Blakeslee, Allen W. Dulles, C. P. Fuller, C. H. Haring, Shepard Morgan, L. B. Pearson, William Phillips, and Allen Wardwell. They are obligated to Mr. Benjamin Gerig for the preparation at Geneva of a survey of the work of the Disarmament Conference.

They wish also to record their appreciation of the many courtesies extended to them by the Secretariat of the League of Nations, by officials of the Bank for International Settlements, by the Department of External Affairs of Canada, by Secretary Stimson and his associates in the Department of State, and by officials of the Navy Department, the Department of Commerce, and the Tariff Commission. It should be added that this coöperation has entailed no responsibility for anything appearing in these pages.

The authors' greatest obligation is to the officers and the research staff of the Council on Foreign Relations. They wish to thank the members of the Research Committee who have read the book in manuscript, and to express their appreciation especially to the retiring Chairman, Mr. Edwin F. Gay, for his helpful suggestions and his constant interest in their work. From Mr. Walter H. Mallory, the Executive Director, and from Mr. Hamilton Fish Armstrong, the editor of *Foreign Affairs*, they have had coöperation of many kinds. Miss Ruth Savord, librarian of the Council, has prepared the bibliography and rendered other useful services. Valuable help has been given by Mr. Thacher Winslow in the compilation and checking of statistical data, and by Miss Helen Barc and Miss Wilya Gallus in the collection of material and the preparation of the manuscript.

The authors are under obligations to Mr. Cass Canfield for undertaking on behalf of the publishers a task of an unusual character. Mr. Alexander Kadison has assisted in the proofreading.

W. L.
W. O. S.
C. M.

INTRODUCTION

IN THIS history the authors have attempted to set down in an orderly fashion, as objectively as possible, and in such perspective as they could, a record of American foreign relations during the year 1932. This volume, like its predecessor, was prepared almost contemporaneously with the events it describes, and it makes no pretension to being a definitive history of the period. It is intended as a memorandum written in the midst of affairs to assist those who wish to recall the immediate past in appraising the immediate future.

The authors have sought to understand rather than to pass judgment on policies or to advocate their own views. They are well aware, however, that the mere selection and arrangement of the materials of a history involve at every turn acts of judgment and of interpretation, and that their own views of what is desirable and undesirable in international affairs have controlled their sense of what is relevant and significant. They have, of course, endeavored to be conscientious in the sense that they have not knowingly suppressed or knowingly exaggerated in order to persuade the reader. But the reader must be on guard, as he must be in any history, even the most scholarly, against the unconscious bias of the historian.

It may be useful to explain certain considerations which have guided the authors in the selection and arrangement of the material. The events of 1932 were, of course, complicated and diverse. As the principal purpose of such a book as this is to be useful in clarifying the judgment, the authors have sought the maximum of logical unity attainable without distorting the facts by forcing them into a narrow formula. They have tried to make the multiplicity of events coherent, because

that would help to make them intelligible. But where a choice had to be made between the unity of the narrative and the wayward facts, they have sacrificed neatness and simplicity rather than the facts.

It should be said, too, that this book is not a history of world affairs. It is a history of the United States in world affairs. Therefore, events in other countries are described only in so far as, in the opinion of the authors, it was necessary to do so in order to throw light upon American experience and action and policy during the year. Much was happening in the world, though it is not touched upon in this book, which is of greater consequence to more people than many matters which are discussed at length. These happenings may in the future have profound influence upon the United States. But unless the United States was clearly affected by them in 1932, the authors have ignored them.

This will explain why, for example, so fascinating a topic as Russia is not touched upon in this book. The time will come, no doubt—perhaps soon after this volume is published—when the United States will again have important relations with Russia. But during 1932 Russo-American affairs were unchanged; nothing happened which falls within the scope of this history. Did this volume pretend to deal with the subtler cultural relations among the peoples of the world, did it deal with the imponderable elements which affect the future, to pass by Russia would be absurd. But in a pedestrian account of what actually happened, the authors have found nothing to record.

They have also omitted consideration of American policy with respect to the Philippines, although here, at the very end of the calendar year, there occurred a specific event—the passage on December 29 of the Hawes-Cutting bill for Philippine independence. It seemed best to reserve discussion of the Philippine problem, with all its implications as to American policy in the Pacific, for the succeeding volume of this series. It also seemed best to reserve discussion of the St. Lawrence

Waterway Treaty until the attitude of the Canadian Parliament and of Congress had become clear.

Even after so much had been omitted, what remained to be told seemed at times unmanageably complex. The year 1932 was a momentous one in American foreign relations. The United States was directly involved in events of the greatest consequence in all parts of the world. It was active diplomatically in Europe, in South America, and in Asia, and it was concerned at a thousand points in the progress of the world-wide economic crisis.

If in some small measure this book helps the reader to remember more clearly what happened, it will have served its purpose.

CONTENTS

INTRODUCTION

This record of American foreign relations in 1932 is intended to aid in recalling the immediate past in appraising the immediate future. No attempt is made to pass judgment on matters of policy. The purpose is to aid others in clarifying their own judgment. The discussion of world events is limited to those affecting the United States vii

I. THE TEMPER OF CONGRESS

The Administration and Congress lose contact in the long interval between sessions. Congressional opinion molded mainly by local influences. Administration's attitude influenced more largely by world events. The new Congress not subject to party discipline because of narrow majorities in both Houses. Popular sentiment unfavorable to collaboration with Europe as economic difficulties increase in the United States. Domestic relief demanded in lieu of plans to help other countries. Ratification of the Hoover moratorium assured by previous pledges of Senators and Representatives. On ratifying, Congress declares against cancellation or reduction of the war debts, and also refuses to revive the World War Foreign Debts Commission 1

II. THE PERIOD OF POSTPONEMENT

The temper of Congress blocks further development of foreign policies initiated by the Administration in 1931. A waiting attitude necessary during the economic crisis. Consideration of war debts postponed until after the election. Other nations encouraged to seek settlement of their problems without American coöperation. Germany seeks relief under the terms of the Young Plan. An advisory committee reports that she is unable to make the postponable payments. Reparation conference called to meet at Lausanne in January and then postponed until June. Official American attitude toward reparations and debts. Second "standstill" agreement allows further postponement of payment of German private debts. Failure of London Danubian Conference postpones settlement of Central European problems. Con

gress makes half-hearted effort at tariff revision. Consideration of Far Eastern question postpones pending report of Lytton Commission 14

III. Economic Deterioration in the Period of Postponement

Conditions grow worse as governments defer settlement of urgent problems. Recession in practically all lines of business activity during first half of 1932. Deflation of commodity prices, weakness in security markets, decline of new financing, increase in unemployment, wage reductions, and shrinkage of profits characterize this period. Farm incomes decline while agricultural output is maintained. Foreign trade, especially in manufactured goods, sharply curtailed. Prices decline even in countries with depreciating currency 38

IV. Disturbances in Latin America

Deepening of the economic depression in Caribbean and South American countries. Extent of defaults on external debts. The financial stake of United States investors. Character of their investments. Revolts of 1930–31 increase the economic difficulties. New political disturbances in 1932. Civil war in Brazil. Chain of revolutions in Chile. United States government's recognition policy, as exemplified in Chile and El Salvador. Foreign governments fail to follow American lead in latter country. The Leticia dispute between Colombia and Peru. The Chaco dispute between Bolivia and Paraguay. Efforts of Pan-American group and of League Council to effect a settlement. The Stimson doctrine invoked for the Western Hemisphere 49

V. Creditor and Debtor Nations

The international flow of capital in the post-war period. Economic benefits from foreign lending. The United States as a creditor maintains an export surplus by lending more abroad. Three elements of weakness in post-war lending: an increasing trend toward political lending; insufficient attention paid to problem of repayment as a whole; growing tendency toward short-term lending. Stream of international credit contracts after 1927. Debtors seek to balance their international payments by exchange control, moratoria and import quotas, licenses and surtaxes. Effect of these restrictions on world trade 70

VI. Rising Tariff Barriers

Creditor nations meet the debtor nations' trade restrictions with new tariffs of their own. Great Britain abandons

free trade. Evolution of British protective system. The tariff act of 1932. Imperial preference at the Ottawa conference. Conflicting interests at Ottawa. The question of "Empire content." Twelve trade agreements finally negotiated. Their possible effect on the trade of the United States. Tariff relations of the United States and the Dominion. Direct American investments and branch factories. United States concerns seek imperial preference in trade with Great Britain. Holland and Belgium show reaction of low-tariff countries to growing trade barriers 86

VII. THE AMERICAN CRISIS

Large volume of short-term credit an element of danger to currency stability. How and why short-term credit developed on such a scale. The liquidating crises in the United States in the autumn of 1931 and the spring of 1932. Reliance of other countries on American currency stability. International dangers from an unbalanced budget. The Administration's attitude toward increased taxation. Measures for the defense of credit: the Reconstruction Finance Corporation and the Glass-Steagall Act. Revolt in the House against the sales tax threatens the budget-balancing program. Plans for safeguarding the gold standard. The threat of inflation in the Goldsborough bill, the bonus bill, and the public buildings bill. How the crisis was met 104

VIII. THE LAUSANNE SETTLEMENT

Conference postponed until latest possible date, because of German and French elections. Swing to the Right in Germany, and to the Left in France. Parliamentary stalemate in Germany is disquieting. This offset somewhat by realistic attitude of new French Cabinet toward reparations. General recognition at Lausanne that Young Plan was no longer operative. Conference therefore more political than financial. Details of the reparation settlement. Political results at Lausanne seen in the Gentlemen's Agreement and the Anglo-French Accord of Confidence. International significance of the conference 132

IX. THE SECOND POSTPONEMENT

Abatement of economic crisis at midyear. Check to commodity-price deflation, gold losses, and currency hoarding, with rally in security markets. Improvement slackens in early autumn, but defeatism and panic disappear. Fundamental problems still await solution, and little progress is possible without a change in public opinion. Political leaders in the United States refrain from detailed discussion of international affairs during the Presidential campaign. Views of

Democratic and Republican candidates on domestic aspects of the tariff. Other questions of international import—debts, disarmament, World Court, Pact of Paris—receive passing attention 154

X. The War Debts

Between July and September, Greece, Poland, Estonia, Latvia, and Germany take advantage of postponement clauses in their agreements. In November, Greece and Hungary default on non-postponable loans. France and Great Britain seek suspension of their payments due on December 15 and ask negotiation of new agreements. President Hoover and President-elect Roosevelt confer on debts. They agree on fundamental principles, but disagree on procedure. British and French requests rejected. France and four other countries defer payment. American public opinion concerning the debts. Arguments for and against revision. Changes in capacity to pay. Relations of war debts to world trade. 167

XI. Shanghai and Manchuria

Interest of Western powers in the consequences of Japan's Manchurian policy. Events in the Far East impinge on their post-war covenants of peace. Creation of the Lytton Commission. Renewal of Japanese advance in Manchuria. United States government promulgates the Stimson doctrine. Attitude of European governments toward the pronouncement. Anti-Japanese boycott precipitates trouble at Shanghai, with Japanese navy taking the initiative. Conciliatory efforts of the Western powers. The case before the League. The new state of "Manchukuo". The United States fleet concentrates in the Pacific. The question of economic sanctions. League Assembly adopts the Stimson doctrine. Japanese withdraw from Shanghai, but later recognize and conclude an alliance with "Manchukuo". Lytton Commission submits its report. 192

XII. Reduction and Limitation of Armaments

Duality of American policy concerning arms limitation. Proceedings at Geneva show that disarmament cannot be separated from international politics. United States brought closer to participation in the organization of political security. The American proposals. Contrasting French and English views of disarmament. Qualitative disarmament accepted in principle. Conference deadlocked in trying to apply this principle. The Hoover Plan. Reasons for its acceptance by Italy, Germany, and Russia. American delegation avoids entanglement with the European revisionist bloc by rejecting some of its own proposals. The resolution of July 23.

Withdrawal of Germany from the conference. Exploratory negotiations during the autumn. Efforts to placate Germany. The Five-Power declaration. Further discussion of naval questions 227

EPILOGUE 258

SELECTED BIBLIOGRAPHY 259

APPENDICES 268

I. (*a*) Vote in the Senate and House of Representatives on the Ratification of the Hoover Moratorium 270
(*b*) Various Estimates of German Payments on Reparation Account 271
(*c*) Payments Due the United States Postponed in 1931–32 under the Hoover Moratorium, and Payments Falling Due in the Fiscal Year 1932–33 272
(*d*) Excerpts from the Agreement with Germany Negotiated at Lausanne, June 16–July 9, 1932 272

II. (*a*) External Debts of Latin American Countries 277
(*b*) Cumulative Capital Movement between the United States and Other Countries, 1922–1931 278
(*c*) Policy of the Department of State Concerning Foreign Loans 278
(*d*) A Note on Germany's Private Debts 281

III. (*a*) Countries Suspending the Gold or Gold Exchange Standard and Adopting Exchange Control 283
(*b*) Import Quotas in Operation in Continental Europe 284
(*c*) A Note on the Conference at Stresa 287
(*d*) Foreign Trade—Quantity Index 288
(*e*) Trade of Great Britain with Foreign Countries and with Other Parts of the British Empire 289
(*f*) Balance of International Payments of the United States, 1922–31 290

IV. Passages from Republican and Democratic Platforms Dealing with Foreign Policy and the Tariff 292

V. (*a*) Indices of Production in Important Countries 298
(*b*) Commodity Prices in Important Countries 298
(*c*) Unemployment in Important Countries 299
(*d*) Yield and Value of Staple Crops, United States, 1928–31 . . 299
(*e*) Significant Business Indices, United States, 1929–31 299
(*f*) Trend of Dividend Payments and Railway Earnings, United States, 1930–32 300

VI. Note of the Nineteen American Governments to Bolivia and Paraguay, August 3, 1932, Invoking the Stimson Doctrine . 301

VII. (*a*) The Findings of the Lytton Commission 304
(*b*) Text of the Treaty between Japan and "Manchukuo" . . . 308

VIII. (*a*) Arms Limitation: The First American Proposal 310
(*b*) Arms Limitation: The Second American Proposal 311
(*c*) Arms Limitation: President Hoover's Proposal 312
(*d*) Resolution Adopted by the Conference for the Reduction and Limitation of Armaments at Geneva, July 23, 1932 . . 314
(*e*) The Five-Power Declaration of December 11, 1932 319
IX. Chronology of Important Events Affecting American Foreign Relations, 1932 321

INDEX 343

MAPS

The Chaco District 63
Shanghai—Area of Conflict, January–March, 1932 201
Manchukuo 211

THE UNITED STATES IN WORLD AFFAIRS

CHAPTER ONE

THE TEMPER OF CONGRESS

1. *The Effect of the Long Separation between Congress and the President*

OUR story begins in December, 1931. For nine months the Administration of President Hoover had carried on without calling Congress to Washington. On several occasions, notably in June, when he was preparing the moratorium on intergovernmental debts, and in October, when he was seeking to strengthen the banks, the President had consulted the Congressional leaders and had obtained their approval of certain of his measures. But Congress as a whole did not meet until the time had come when under the Constitution a session was compulsory.

This Congress had been elected thirteen months previously. It contained a large number of new members. For in the election of 1930 the Republican representation in the Senate had been reduced from fifty-three to forty-eight and in the House from 266 to 218. The Democrats had gained five Senators and forty-eight Representatives. As a result the Republicans retained a nominal control of the Senate. But owing to the sharp divergence of view between Progressive and Administration Republicans, they could not hope to exercise effective control. The House was nominally Democratic. But the majority was so slender that in fact the Democratic leaders had little more hope of being able to control the House than the Republicans had of controlling the Senate.

The elections of 1930 had shown a strong anti-Administra-

tion tendency but the results had been indecisive. It was seen clearly that under these circumstances party discipline could not be maintained and that the opinion of the individual member as to the wishes of his own constituents would generally prevail over the instructions of party leaders. Chiefly for this reason the President decided to delay the assembling of this Congress as long as it was legally possible to do so. His hope was that, before Congress met, the course of events supplemented by executive action would bring about the beginning of a recovery from the depression.

His hope was not realized and conditions were, indeed, worse when the Seventy-second Congress gathered in Washington on December 7, 1931, than they had been when the old Congress adjourned on March 4. With events moving so rapidly and so disastrously, the long separation between the two branches of government during a period of nine months had an outcome which had not been foreseen. The Congressmen remained at home, where they saw daily the miseries and anxieties of the people but had no first-hand contact with the evolution of opinion and larger policy in Administration circles. The Administration, on its part, though it no doubt had reasonably reliable information as to the state of affairs in the nation, was deprived of direct contact with the mood of the people in large parts of the country.

Thus the inherent difficulty of coöperation between the President and a Congress which did not acknowledge his leadership was accentuated by the fact that for nine months Congressional opinion had been developing subject to local influences and that Administration opinion had been developing subject to central influences originating in its necessary contact with the heads of governments, with central banking authorities, with financial leaders, and the chiefs of large corporations. The events of 1931 were experienced by Congress from the outside looking in and by the Administration from the inside looking out. So long a separation in such eventful times had added to the normal difficulties of the separation

of powers the abnormal difficulty of a deep estrangement of minds. Intellectually and emotionally the two branches of the government had a quite separate orientation. They did not know the same facts. They did not feel the same way. They had not been educated together in the same school of experience, and even without the partisanship of an election year, it would, with such preparation, have been excessively difficult to achieve a meeting of minds on problems which were as complex and as unprecedented as those which confronted the government in 1931.

2. *The Evolution of Administration Opinion Prior to the Assembling of Congress*

The chain of events which began with the collapse of the Kredit Anstalt in Austria and culminated in the American financial crisis of October had profoundly affected Administration opinion as to the measures necessary to deal with the depression. The story of this evolution of Administration policy has been told in the preceding volume of this series, and we shall not here do more than recall summarily the main developments.[1]

The German crisis of June had brought the Administration to a tacit recognition that reparations and war debts were in fact, though not in law, related to each other and that both were related to the world-wide depression. The necessity of reducing the tax burden and of diminishing the political tension had brought the Administration into close collaboration with the activities of the League of Nations in preparing for a conference on armaments. The Japanese seizure of the three Manchurian provinces had brought the Administration into even closer association with the powers of the League. The Austrian, German, and British financial crises in the summer had compelled close coöperation between the Federal Reserve System and the European central banks; the American crisis of October had called for additional coöperation. All in all,

[1] *The United States in World Affairs, 1931*, Chapters VII-XI.

the President had concluded that "as our difficulties during the past year have plainly originated in large degree from these [i.e., foreign] sources, any effort to bring about our own recuperation has dictated the necessity of coöperation by us with other nations in a reasonable effort to restore world confidence and economic stability."[2]

In domestic affairs the strain put upon the banks by the withdrawal of gold and by hoarding had reached a point where the Administration and the bankers saw the necessity of supporting the private credit structure with public credit. To make this effective, the Administration was, after prolonged reluctance, compelled to undertake the task of dealing with the deficit which by the autumn of 1931 had been accumulating for some fifteen months and was ominously large. To save the banks, the public credit had to be employed. To employ the public credit, it had to be sustained by balancing the budget. To balance the budget, expenditures had to be reduced and economies effected. To effect economies and yet to provide relief was not easy, and the Administration took a strong stand against Federal relief.

Thus, under the exigency of events, the Administration policies had come to include not only ratification of the one-year moratorium but reconsideration of the war debts, a substantial abandonment of the policy of isolation, international banking coöperation, the mobilization of public credit to support the banks, retrenchment of expenditures, opposition to new expenditures for relief, and a tax bill to raise new revenues. These measures were dictated by the logic of events as seen by those who occupied posts of responsibility or had access to information there available. In principle they had virtually the unanimous support of Democrats and Republicans who had had first-hand contact with the events of the summer and autumn, but they constituted a hard program to plump down before a Congress which had no preparation for understanding them, was seething with the discontent of the

[2] Message to Congress, December 8, 1931.

people at home, and was facing primaries, conventions, and a general election within a few months. For the program required concessions of money to foreigners, political collaboration in distant lands, public money for banks, no public money for distressed individuals, a reduction of expenditures which were popular in the districts, and new taxes levied on large masses of voters.

That the purpose of the whole program was to relieve the plight of the people need not be doubted, but the means which had to be adopted were necessarily indirect. They involved immediate sacrifices, and they would under any conditions have been unpopular. But because the Congressmen had not shared the experiences which had brought the Administration to this program, it was difficult for them to understand it, and more difficult for them to make their constituents understand it. It was but natural, then, that the cry should go up that the Administration was displaying great solicitude for the bankers and the foreigners, while it had forgotten the ordinary man at home.

3. *Congressional and Popular Opinion at the Assembling of Congress*

As soon as the Congressmen came to Washington for the regular session, it was evident that in formulating its policies of international collaboration the Administration had failed to carry with it the opinion of the country. So far as we are able to judge the matter, it would appear that the breach between the Administration purposes and popular sentiment became serious about October 1, 1931. There is, for example, abundant evidence that the Hoover moratorium in June was well received. It had produced buoyant markets for commodities and securities, and though the improvement was short-lived, there is reason to think that the country was enough impressed by the demonstration to believe that measures of this character might be what was needed to break the evil spell under which trade was languishing. But by the

middle of September, the whole rise had been canceled and the deflationary pressure was again grinding down the people.

Thus, from August, when crops began to move, until December, when Congress assembled, the prices of farm products had fallen from 64 per cent of the 1926 level to 56 per cent. The total farm income was so drastically reduced that the average farmer in December, 1931, had 75 cents as against a dollar the year before, and as compared with 1929 he had lost in income about 42 cents in every dollar.

The decline in farm income was accompanied by a drastic deflation of farm-land values. During the year ended March 15, 1931, the number of forced sales resulting from the foreclosure of mortgages, bankruptcies, and delinquent taxes showed an increase of 25 per cent over the preceding twelve months, and the rate reached the highest point on record.[3] While the value of farm land steadily declined, taxes on rural property remained at more than double their pre-war level,[4] and tax delinquencies in rural communities were widespread. The proportion of farms changing ownership on account of delinquent taxes rose from 4.7 per 1,000 farms in 1929 to 7.4 in 1931.[5]

In Kansas a number of counties declared a moratorium on local taxes.[6] In some communities local taxes were collected in monthly installments. Ten counties in New Jersey, one-half the number in the State, failed to pay their quota of State taxes when these fell due in December.[7] The delin-

[3] *The Farm Real Estate Situation, 1930–31* (United States Department of Agriculture, Circular No. 209, December, 1931), pp. 7, 44, 45.

[4] The index number of taxes on farm property, compiled by the United States Department of Agriculture, with taxes for 1914 represented as 100, stood at 266 in 1930, while the index number of estimated value of farm land per acre in 1931 stood at only 3 per cent above the level of 1914. The ratio of prices received by farmers for their products to the price of commodities bought by them for use in both production and living stood at an average of 101 in 1914, of 80 in 1930, and of 59 in August, 1931.

[5] *The Farm Real Estate Situation, 1930–31* (United States Department of Agriculture, Circular No. 209, December, 1931), p. 45.

[6] *New York Times*, July 23, 1931.

[7] *Ibid.*, January 5, 1932.

quent taxes in that State at the end of the year amounted to 30 per cent of the total levy.[8] In Wisconsin over a million acres had been taken over for unpaid taxes by the counties.[9]

Ground between falling prices on the one hand and their fixed obligations represented by taxes, mortgages, and the relatively small decline in the prices of manufactured necessities on the other hand, multitudes of farmers were in a desperate plight. Their troubles were greatly aggravated by the impairment and sometimes by the total elimination of the agencies of credit in rural commodities. During 1931, banks to the number of 2,298 were closed,[10] and more than half of these were in communities of less than a thousand inhabitants. Many towns found themselves without banking facilities of any kind, and even where banks remained open, credit was drastically curtailed. There was panic in the air.

In August, 1931, 158 banks suspended, in September 305, in October 522.[11] Men were afraid to leave money in the bank, and between August and December money was extensively hoarded and the monetary circulation, in spite of falling prices and reduced business activity, increased by 664 million dollars.[12]

In the industrial centers unemployment was increasing. No exact figures were available, but various private estimates placed the number of unemployed at between six and ten million.[13] The need for relief had grown stupendously. In

[8] *New York Times,* July 28, 1932.

[9] Richard T. Ely, "Taxation in Hard Times," *Review of Reviews,* LXXXIV, 67, August, 1931.

[10] Of these, 276 were subsequently reopened. Cf. *Seventeenth Annual Report, Federal Reserve Bank of New York, for Year Ending December, 1931.* It is estimated that 600,000 depositors were deprived of the use of their funds during 1931. Henry Parker Willis, in *Nation,* CXXXIV, 422, April 13, 1932.

[11] *Federal Reserve Bulletin,* September, 1932, 573.

[12] *Ibid.,* 565.

[13] The American Federation of Labor estimated the number at the end of 1931 at 8,300,000. Senator Bingham of Connecticut, after canvassing the governors of all the States by telegraph, arrived at the estimate of 6,000,000. In less conservative quarters the estimate was 10,000,000. The

testimony before a Senate committee it was said that the number of families receiving relief had been tripled since 1929 and that the agencies were able to help only about half the applicants.[14] In the coal regions the condition of the miners was deplorable; perhaps 1,200,000 persons in these districts were in serious distress.

In November, 1931, Senator La Follette addressed a questionnaire to the mayors of 810 cities in every section of the country. He received nearly 700 definite replies, and they showed that in 156 cities unemployment had increased during the past twelve months up to 50 per cent, in 115 cities it had increased from 50 to 100 per cent, and in 85 cities it had increased 100 per cent and more.

Their minds full of the knowledge of these conditions, their feelings harrowed by personal contact with suffering, despair, and anxiety among their constituents at home, their mail choked with appeals for help, the Congressmen came to Washington and found that they were expected to relieve foreign debtors, to coöperate with Europe, to abstain from voting relief, to retrench on expenditures, and to levy new taxes. It was not an inviting program, especially in an election year. The adventure in collaboration with Europe by means of the moratorium had been followed not by better but by worse conditions, and as against the popular reasoning *post hoc, ergo propter hoc,* it was not easy to make much headway. Nor had other events contributed anything to arouse popular confidence in the efficacy of international collaboration. By December the prestige of the League and of the Kellogg Pact had been badly shaken by Japanese dis-

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Federal census of unemployment taken in 1930, and palpably incomplete, gave the total number as 3,187,000. Cf. *Congressional Record,* Seventy-second Congress, First Session, 3872, 6301. All references in this volume to the *Congressional Record* are to the daily (unbound) edition. The page numbers are not the same as in the bound edition, issued later.

[14] Statement of Linton B. Swift, Executive Chairman of the Family Welfare Association of America. Cf. *Unemployment Relief,* Hearings on Senate 174 and Senate 262 before the Sub-committee of the Committee on Manufactures, Seventy-second Congress, First Session, 89.

regard of the whole machinery. It was difficult at that moment for anyone to say that the post-war peace establishments could be made effective, and everywhere there was deep disillusionment. In Congress and among the people the natural disposition to demand an isolationist policy was confirmed by the dreary humiliation which Japan was inflicting upon all the powers.

To this disillusionment with the results of the moratorium and of the collaboration as to Manchuria, the experience of American investors in foreign bonds contributed strongly. These bonds were widely held throughout the country. During 1931 the prices of foreign bonds listed on the New York Stock Exchange declined nearly 40 per cent, and they reached their lowest point just about the time that Congress met. A number of governments, especially in South America and Central Europe, had defaulted on their payments of interest, and where there was no default the depreciation in value was very large. The experience of bondholders expressed itself naturally enough in resentment against international bankers who had sponsored these issues, against foreign financing, and against all proposals for economic coöperation with foreigners.

The Congressmen lost no time in voicing the popular sentiment against international action. Here, for example, is Representative Cross of Texas speaking a few days after Congress had met:

> I am sick and tired of this nation muddling around in the affairs of the countries of Europe or any other country. Let Europe run her own affairs. Let us quit meddling with international agreements.[15]

His colleague, Representative Dies, spoke in this vein:

> I am disgusted with that maudlin sentiment that is continually urging us to save Europe. It seems to me that it is high time for us to save America. For the past fifteen years we have been engaged in the business of saving Europe; we have poured billions of dollars into the treasuries of Europe and enabled them to build up their

[15] *Congressional Record*, Seventy-second Congress, First Session, 384.

industries and agriculture at the expense of the American people. We are now faced with a $2,000,000,000 deficit in our own Treasury. Seven millions of our fellow citizens are walking the streets in idleness, unable to secure the means of earning a decent livelihood. Our farmers have been reduced to despair.[16]

On December 15, Senator Johnson of California, well known for his antipathy to contacts with foreigners, said:

The time has come in this country finally when, however weak the voice, or however humble the individual, or however small may be the compass of those he may reach in words, someone must cry aloud for America and Americans, and endeavor to protect these people of ours, already staggering under taxation and crushed by disaster, from those who would fasten upon them an additional sum that is their due, and that they ought to have.[17]

About the same time Representative Glover of Arkansas declared:

We have gone far enough. Let us say that America hereafter shall be for the development of Americans.[18]

And Representative Eslick of Tennessee said:

Let us first be just to our home people before we are generous to the peoples of Europe.[19]

Very little attempt was made to controvert statements of this sort and they fairly represent the articulate sentiment in Congress. The evidence was unmistakable that between the time when the moratorium was acclaimed and the time when Congress met there had taken place a sharp crystallization of opinion along purely nationalist lines and that the country demanded that strict attention be given immediately and exclusively to domestic affairs.

Yet the first piece of business before Congress was the moratorium on international debts. For on December 15 the foreign debt payments would be due unless in the intervening days Congress ratified the Hoover plan.

[16] *Congressional Record*, Seventy-second Congress, First Session, 1168.
[17] *Ibid.*, 536.
[18] *Ibid.*, 463.
[19] *Ibid.*, 818.

4. *Congress and the War Debts*

The President's decision not to call Congress into session before the appointed time meant that there were only seven legislative days before December 15, 1931, when payment on the war debts fell due. The moratorium being a measure affecting revenue, its consideration was to begin in the House of Representatives, and since in the elections of 1930 the Democrats had obtained control of the House it was necessary at the outset to elect a new Speaker and to install the Democratic organization. The Ways and Means Committee, to which the moratorium would be referred, was not chosen until December 9, so that in fact there remained only six days before December 15, even if the week-end were included.

Although the President held that it was "highly desirable that a law be enacted before that day authorizing the Secretary of the Treasury, with the approval of the President, to postpone all payments . . . during the year ending June 30, 1932,"[20] it was clearly impracticable to hold hearings, to conclude the debate, and to vote in both houses within such a brief working period. In order to relieve the anxiety of the debtor governments that the inevitable delay would put them technically in default, the Department of State notified Congress that if any debtor government made inquiries it would be informed that "under the special circumstances in which the proposal was made and accepted, and without intending in any way to vary the legal rights of this country, it appears to this government that the postponement on the part of your government of the December 15 payments, pending action by Congress, will not be subject to any just criticism."[21]

As to the eventual ratification of the moratorium, there was never any real doubt. For the President had not made his proposal until he had obtained pledges of support from a substantial majority of both houses, and when Congress

[20] Message on foreign affairs, December 10, 1931.
[21] *New York Times*, December 14, 1931.

met there were 276 Representatives and 68 Senators committed to the project. An attempt was made by the irreconcilable opponents to vitiate these pledges by arguing that the scheme of postponement actually adopted on July 6 differed from the proposal made by the President on June 20.[22] The argument did not carry much weight. The pledges stood, and ratification was certain.

The proceedings of Congress were, nevertheless, of immense consequence to the foreign policy of the Administration. Although the opposition to a policy of collaboration and concession was not strong enough to reject the moratorium itself, it was quite strong enough to impose an absolute veto upon any further adjustment of the debts during that session. It easily persuaded Congress to reject out of hand the President's proposal to re-create the World War Foreign Debt Commission "with authority to examine such problems as may arise in connection with their debts during the present economic emergency."[23] The opposition also attached to the resolution of ratification, as drafted by the Treasury experts,[24] a rider saying:

> *Sec. 5.* It is hereby expressly declared to be against the policy of Congress that any of the indebtedness of foreign countries to the United States should be in any manner canceled or reduced and nothing in this joint resolution shall be construed as indicating a contrary policy, or as implying that favorable consideration will be given at any time to a change in the policy hereby declared.

Having announced its opposition to a continuation of the policy implied in the President's proposal of June and in the Hoover-Laval statement of October 25, Congress ratified the moratorium. In the House the vote was 318 to 100; in the Senate it was 69 to 12. The majorities were ample, but the significance of the proceedings lay in the fact that these ma-

[22] Cf. *The United States in World Affairs, 1931*, 166–172.
[23] Message of December 10, 1931.
[24] Hearings before the Committee on Ways and Means on House Resolution 123, Parts 1 and 2, December 15–17, 1931.

jorities were obtained only after Congress had with virtual unanimity served notice upon the President that it would make no further concessions of any kind. Thus ratification marked a turning point in policy by bringing to an abrupt end the evolution of Administration policy toward closer and more active international coöperation. On December 23, when the President signed the resolution of ratification, he knew that Congress was actively opposed to the whole line of policy which he had been developing during the summer and autumn, and that for the time being at least he must take no step in foreign policy which required the positive approval of Congress.

For the remainder of the session, and indeed until after the elections in November, the President knew that he could make no commitment in foreign policy as to intergovernmental debts, as to disarmament, or as to the Far Eastern situation. Congress had expressed its will unmistakably, and the policy of the Administration was henceforward limited to measures which in fact postponed decision on outstanding international questions.

CHAPTER TWO

THE PERIOD OF POSTPONEMENT

1. *The Policy of Collaboration Suspended*

IN THE five months following the proposal of the moratorium, President Hoover and Secretary Stimson had caused the United States to emerge further from political isolation than at any other time since the Senate rejected the Treaty of Versailles. In the moratorium they had, contrary to all previous declarations, recognized an American interest in the problem of German reparations and had acknowledged that in fact, though not in law, the political debts arising out of the war were organically related.[1] They had explored the difficulties of a limitation of armaments and by September, 1931, had in effect agreed to the thesis that armaments and political security were interdependent. It was to emphasize this new conviction, even more than to uphold the traditional American policy in the Far East, that they had taken so active a part in the Manchurian affair, going to the point of authorizing an American representative to sit with the Council of the League of Nations. Having become convinced that the world-wide depression could not be arrested without international agreements dealing with debts, armaments, and political insecurity, they had held conversations in Washington with the Premier of France and then with the Foreign Minister of Italy in which it was clearly indicated that the United States was actively interested in these problems and would participate in their solution.

[1] This was officially denied, however, during the exchange of notes with Great Britain and France in December, 1932.

This line of development was halted when the temper of Congress was made manifest in December, and in the subsequent months of domestic crisis the foreign policy of the Administration was controlled by the fact that Congress would not approve any of the commitments which positive collaboration implied. Since it was evident that any positive decision would be rejected by Congress, the Administration had to pursue a course which would postpone the need of making decisions. It did not abandon the ideas which it had evolved in the second half of 1931, but it felt that if it pressed those ideas, it would be compelled to abandon them. Thus, beginning with December, 1931, the policy of the Administration was to encourage other nations to proceed as far as they could toward settlement of the vexed questions and to avoid any move on its own part which would give Congress the opportunity to slam the door against eventual collaboration by the United States. Knowing that on none of the great unsettled questions could they then say yes, the President and his Secretary of State did their utmost not to be forced to say no. The implication intended to be conveyed to Europe was that the United States would return to a policy of collaboration when the domestic crisis and the national elections were over, and that the measure of American collaboration would be enhanced by the progress toward settlement made by European powers in the interval. The Administration did not repudiate the political obligations it had incurred in the summer and autumn of 1931; it merely asked a period of grace during the American domestic crisis.

2. *The Postponement of a Reparation Settlement.*

The effects of this paralysis of American policy were felt immediately in the search for a solution of the reparation question. The Hoover moratorium was to end on July 1, 1932, and on July 15, in the absence of a new agreement, Germany had either to default or to resume payments. It was, therefore, necessary to settle the future of reparations

before July. It was highly desirable that it should be settled even sooner, for the uncertainty as to the future made any re-establishment of German credit, and in fact of Central European credit, impossible. The entanglement of German credit with that of other countries was so considerable that the whole world had an acute interest in a solution.

But as matters were arranged, while German reparation payments fell due in July, European payments on war debts to the United States did not fall due until December. Thus it was possible to postpone the consideration of the war debts six months longer than the consideration of reparations. The Hoover Administration took advantage of this time-table,[2] which fitted so admirably with its domestic situation, by taking the view that the European powers should settle reparations before broaching the revision of war debts.

The French government helped the Administration in taking this line. It had always objected strenuously to the manner in which President Hoover, when he proposed his moratorium, had ignored the juridical and procedural principles of the Young Plan. The Laval Ministry, having in mind the French interest in maintaining the Versailles system, regarded Mr. Hoover's unceremonious handling of reparation principles as a threat to the sanctity of the whole treaty system. The French official press had berated President Hoover for his lack of regard for the letter of the law, and when M. Laval arrived in Washington in October, he had asked the President for assurances that in future the reparation question would be dealt with in accordance with the Young Plan.

That a return to the Young Plan meant also a return to the *status quo ante* in respect to debts does not seem to have been clearly grasped by M. Laval. In any event, M. Laval was asking for assurances which Mr. Hoover, who by that

[2] German reparations were payable in monthly installments, while payments to the United States on the war debts were made twice a year. Germany's creditors counted on the monthly reparation payments to enable them to make the semiannual payments on their own debts.

time had begun to realize the temper of the impending Congress, was only too glad to give. A return to the Young Plan meant that the Administration need not and in fact could not participate in the reparation settlement and that it could postpone the debt problem until after the Presidential elections. Thus, by his insistence on the letter of the law, M. Laval once again separated reparations and debts and put his government in a position where it must settle reparations before it had settled debts.

There is some reason to think that M. Laval did not comprehend the effects of what he regarded as a diplomatic triumph, and that owing to the hurry of the Washington conversations and the difficulty of communication through interpreters, he went home thinking that he had preserved France's legal rights under the Young Plan and had obtained assurances from the President that the debts would be considered along with reparations. The American negotiators had a wholly different impression, and when at the end of December the confusion was evident, the Secretary of State informed the European debtors that the United States had not made any commitments about revision of the debts.

The result of the Hoover-Laval conversations was, therefore, to enable the United States to withdraw from the negotiations about intergovernmental debts and to compel France, Great Britain, and Germany to proceed without American assistance and, in fact, without knowledge of American intentions.

On November 19, 1931, the German government, acting in conformity with the Hoover-Laval statement, invoked Article 119 of the Young Plan. It applied to the Bank for International Settlements, asking that a special advisory committee be appointed to investigate Germany's capacity to pay. The board of the bank, after considering the application, announced that it had "come to the conclusion in good faith that Germany's exchange and economic life might be seriously damaged by the transfer in part or in full of the

postponable portion of annuities," and duly appointed a committee.

On December 7, 1931—as it happened, the very day on which the Congress of the United States convened in Washington—this committee met at Basle. On December 23 it published a full report on Germany's credit position. The committee brought in a categorical verdict that Germany was not able to make the conditional payments under the Young Plan which would become due in July, 1932.

The text of this section of its report was as follows:

> It is evident from the facts outlined in the preceding chapters that Germany would be justified in declaring—in accordance with her rights under the Young Plan—that in spite of the steps she has taken to maintain the stability of her currency, she will not be able in the year beginning in July next to transfer the conditional part of the annuity.[3]

The Young Plan provided a rising scale of payments on the assumption that world trade would steadily expand in both volume and value and that the payments would become an item of steadily diminishing importance in the German budget. This expectation was not fulfilled. The trade of the world had declined in volume, and prices had receded sharply at the same time, so that the burden not only of reparations but of all payments based on gold was greatly increased. In the opinion of the advisory committee, the problem which was thus thrust upon Germany was largely responsible for the growing financial paralysis of the world, and could be solved only by the governments concerned. The problem, moreover, did not affect Germany alone. The diminishing volume of activity had made itself felt in all countries of the world, bringing increasing distress and general political instability.

The committee emphasized especially the need of taking into account not merely reparations but many closely allied

[3] *Report of the Special Advisory Committee Appointed by the Bank for International Settlements.*

questions, and it set forth three considerations which it deemed of great importance.

The first is that transfers from one country to another on a scale so large as to upset the balance of payments can only accentuate the present chaos.

It should also be borne in mind that the release of a debtor country from a burden of payments which it is unable to bear may merely have the effect of transferring that burden to a creditor country which, in its character as a debtor, it, in its turn, may be unable to bear.

Again, the adjustment of all intergovernmental debts [reparations and other war debts] to the existing troubled situation of the world—and this adjustment should take place without delay if new disasters are to be avoided—is the only lasting step capable of reëstablishing confidence, which is the very condition of economic stability and real peace.

The committee ended its report with an appeal to the governments with which responsibility for action rested "to permit of no delay in coming to a decision which will bring an amelioration of this grave crisis which weighs so heavily on all alike."

The most striking feature of this report, apart from its direct recognition of Germany's inability to make the conditional payments, was its insistence upon the connection between reparations and war debts and its intimation that relief to Germany should be linked with relief to the countries which were both creditors to Germany and debtors to other countries. The report clearly implied that the downward revision of the American war debts should go hand in hand with a reduction of reparation payments.[4]

A week after the signing of the report, the British government invited ten of the creditor governments of Germany to a conference in Lausanne on January 18 to discuss the reparation question and the future of the Young Plan. The American government was not invited, and Mr. Ogden L. Mills,

[4] The fact that the French member of the committee, Professor Charles Rist, formally subscribed to the view that Germany could not pay conditional reparations was regarded as of much significance.

then Under Secretary of the Treasury, announced that if it had been invited it would not have accepted.[5] Its attendance at a conference on reparations was deemed unnecessary, since the United States government was not officially concerned with the reparation problem.

Meantime the German government made a move which did not appear auspicious for an agreement with France. It published figures in January tending to show that the cost of reconstruction of the French devastated areas had been more than met by the sums which France had already received from Germany. According to this statement, France, even on the basis of a more conservative estimate than the German government's claim, had received over 19,000 million reichsmarks, while her total expenditures for reconstruction amounted, according to her own official figures, to less than 14,000 million reichsmarks.[6] Germany therefore insisted that her debt for reparations proper had been fully discharged, and the press took up the theme that any further payments, which were not needed for reconstruction, were an exaction of "tribute."

On January 9 Chancellor Bruening went a step further and declared that the report of the advisory committee showed not only Germany's inability to pay but also the close connection between German payments and the world depression. "It is as clear as day," he said, "that Germany's position makes it impossible for her to continue political payments. It is fully as plain that every attempt to maintain intact a system of such political payments must lead to disaster not only for Germany but for the whole world." Dr. Bruening announced that this would be the position which Germany would take at the Lausanne conference.[7]

The German Chancellor evidently issued this statement mainly for home consumption. He was at that time endeavor-

[5] *Commercial and Financial Chronicle,* CXXXIV, 7, January 2, 1932.

[6] An Associated Press dispatch. Cf. *New York Herald Tribune,* January 17, 1932. For various estimates of total German payments, see Appendix I (*b*).

[7] *New York Times,* January 10, 1932.

ing by means of a constitutional amendment to bring about the extension of President von Hindenburg's term of office. This measure required a two-thirds vote in the Reichstag, and it had no chance of adoption without support from the followers of Hitler and Hugenberg. It is possible, therefore, that the Chancellor took this strong position against further payments of reparations in order to win nationalist support for his domestic political program.

Outside of Germany the effects were unfortunate. The Bruening statement was made only nine days before the scheduled meeting of the Lausanne conference, and it aroused considerable resentment in France and Belgium. The British government on the following day announced that the conference had been postponed until January 25. This postponement was, however, attributable not so much to the Chancellor's remarks as to the disorganization of the French Cabinet following the death of Minister of War Maginot and the illness of Foreign Minister Briand.

Dr. Bruening's pronouncement was viewed in Paris as a virtual repudiation of the Young Plan. Premier Laval announced in the Chamber of Deputies that he had filed a protest with the German government against the Chancellor's action, and M. Flandin, the Finance Minister, declared that his government would not accept a one-sided denunciation of a multilateral agreement which all the parties had voluntarily signed. From Berlin there came an official statement designed to placate French feelings. There had been no intention, it said, to issue an ultimatum or a categorical refusal to pay reparations.

By January 20 the negotiations in advance of the Lausanne conference had reached such a state of deadlock that the British government announced a second and indefinite postponement. There was no settlement in sight. French and German opinion had become frozen in an irreconcilable contradiction, and the Laval Ministry could make no substantial concessions without some assurances that the

American war debt would be correspondingly reduced. No assurances were forthcoming, and therefore everyone desired to postpone decision. In this atmosphere, the British and French spokesmen offered to extend the German moratorium for a year. The offer was flatly rejected by Chancellor Bruening, who insisted that a definite readjustment of reparations should be made before the expiration of the existing moratorium.

On the day the conference was postponed a brief but inaccurate summary of a recent note from Secretary of State Stimson to the French government was published in the Paris newspapers, and in this garbled form it was cabled to the United States. It seemed to offer little hope of a settlement. In this incorrect version the United States government was reported as saying that Congress would neither grant a new moratorium nor consider any proposal for cancellation or reduction of the debts, and that the formation of a "united front" by the debtor nations would be viewed with displeasure. But at the same time there was a hint of the possibility of an eventual revision by separate accords.

Those who had followed the developments in the debt situation were somewhat confused by this announcement until the Department of State denied its accuracy. For while Congress had registered its opposition to cancellation and reduction, it had not taken a position against further postponement, as the incorrectly reported note seemed to imply.

The government's pronouncement was sent to other debtors as well as to France shortly after Congress had ratified the moratorium, and its real purpose is now known. In the first place, the government reiterated its thesis that there was no connection between German reparations and the war debts due the United States. In the second place, it insisted that since reparations were a European problem the European governments should assume the initiative in any action on this problem. This position was in full harmony with the Hoover-Laval agreement of October, 1931, to the effect that

the next steps in dealing with reparations should be taken under the terms of the Young Plan, to which the United States was not a signatory. But the Department of State also reminded the debtor nations that their initiation of a new reparation settlement was perhaps the only way by which the people of the United States might be impressed with the need of further action on their part with regard to the war debts. In other words, not until the European powers had made more earnest efforts to work out their own salvation would it be advisable for them to seek a reëxamination of their debt agreements with the United States; and even then the proposals for a reëxamination should come separately from each debtor.

The insistence of the United States upon European action on reparations in advance of any proposal concerning the war debts seems to have strengthened Dr. Bruening in his determination not to accept any temporizing measure offered by Germany's creditors. But the German Chancellor had gone further than to reject a postponement; he insisted that there could be no more payments. The nationalist emotions aroused by these developments made the holding of the Lausanne conference in January inadvisable.

It was assumed at first that this new postponement would also be for a brief period, but in view of the approaching elections in Germany and France it became necessary to defer the conference until they were over. Since the French elections were to be held not later than May, it was decided to postpone the conference until June. In announcing the new date, the British Foreign Office stated that the governments of Belgium, France, Germany, Italy, Japan, and Great Britain had all agreed that the conference should undertake to reach "a lasting settlement of the questions raised in the report of the Basle experts on the measures necessary to solve the other economic and financial difficulties which are responsible for, and may prolong, the present world crisis."

The European press laid especial emphasis on the use of

the term "lasting settlement," which it generally interpreted as indicating not another moratorium but a definite revision both of the Young Plan and of the international debts. It applauded the wide scope which would be given to the conference. But there were some expressions of disappointment that the meeting could not be held earlier, in order that the uncertainties of the existing situation might be eliminated sooner and that one great obstacle on the road to economic recovery might be removed. Yet the fact emerged that, expert and responsible opinion to the contrary notwithstanding, every government concerned found it politically expedient to postpone until the last possible moment the effort to reach a decisive settlement. The French, the German, and the American governments all had elections impending, and none of them, until the elections were over, could or would make any concession that would render a settlement possible. Thus the reparation question was postponed until June and the debt question until after November.

3. *The Second "Standstill" Agreement on Germany's Private Debts*

In the matter of Germany's private debts[8] it was not possible to postpone action until June. The arrangement to maintain the volume of short-term credits for six months, generally known as the "standstill" agreement, expired by limitation on February 29, 1932. It was evident to the international bankers that unless the agreement was continued the German currency would be destroyed by the chaotic and competitive withdrawal of funds from Germany. Therefore, in spite of their desire for a definite settlement of reparations before the "standstill" agreement was renewed, they sent a creditors' committee[9] to Berlin on December 11, 1931.

[8] Cf. *The United States in World Affairs, 1931*, 145–152, 179–183.

[9] The creditor countries represented at the conference were Belgium, Czechoslovakia, Denmark, England, France, Holland, Italy, Norway, Sweden, Switzerland, and the United States. Mr. Albert H. Wiggin, Chairman of the Governing Board of the Chase National Bank, New York City, served as

After prolonged negotiations with committees representing the German debtors, a new agreement was reached on January 23, which extended the "standstill" agreement until February 28, 1933.

The new agreement made numerous changes in procedure and cleared up a number of inconsistencies which existed in the preceding one, and also differed from it in the following particulars: First, the agreement was extended to include additional foreign bank credits employed between July 31 and October 8, 1931, and expiring within the period of the agreement. Second, where the first agreement had made no provision for repayment, the new one provided for a reduction in foreign credit lines outstanding of 10 per cent of the gross through the cancellation of lines or parts of lines, or by repayment. Further repayments, if any, were to be determined by a Consultative Committee which was to meet three times a year, and was to take into consideration the capacity of the Reichsbank to transfer reichsmarks into gold currency.

The short-term debts to be dealt with under the new arrangement, already matured and maturing before March 1, 1933, amounted to 5,040 million reichsmarks. These, unlike the reparation debt, were not the direct obligations of the German government. They were the debts of German banks and German business concerns to foreign banks. Under an arrangement with the German government and the Reichsbank, no payments would be made outside the "standstill" agreement to the prejudice of the "standstill" creditors.[10]

In the report accompanying the text of the new plan, the creditors' committee was as emphatic as had been its predecessor in August in saying that restrictive trade policies were impeding the world's recovery. Declaring that "the whole fabric of international credit is essentially dependent upon an adequate movement of goods from one country to another,"

Chairman of the Creditors' Committee, as he had done at the previous meeting in August, 1931.

[10] *The German Credit Agreement of 1932* (official text).

and that "vast periodic payments cannot be made with gold," the committee pointed out that "trade barriers are growing higher and higher" and that "trade policy should permit goods to move in settlement of international debts and that countries should make markets for one another."[11] It declared, too, that a settlement of all of Germany's international payments was essential to the restoration of German credit, "as indeed are the inter-Allied debts, which are in intimate connection with them," but concluded that "these questions, although they profoundly affect private credit, cannot be solved by bankers."

In renewing the "standstill" agreement for another year, the bankers were, of course, acting in their own interest, since any effort to force immediate payment would have ruined Germany without benefiting them. The year's postponement did, however, signify also the conviction of the bankers that during the next twelve months the reparation problem would have to be settled by the governments, and believing as they did that private debts should take precedence of political debts, they undertook to freeze the private debts *in statu quo* for the period needed to arrive at a political settlement. They were acting here on the belief which statesmen everywhere shared but could not yet publicly avow to their peoples—namely, that the payment of German reparations in any substantial amount would never be resumed.

The bankers realized that a public admission of this fact could not be delayed more than a year, but in order to bind the action of the governments to the doctrine of the validity of the private debts, they stipulated that the new "standstill" agreement could be terminated by the foreign bankers' committee in case of a discontinuance of the 100-million-dollar loan to Germany on June 26, 1931, made by the Bank for International Settlements, the Bank of France, the Bank of England, and the Federal Reserve Bank of New York.[12] This

[11] *Report of the Foreign Creditors' "Standstill" Committee* (official text).
[12] *The United States in World Affairs, 1931*, 174, 307.

loan had originally been made for a period of three weeks. It had been renewed four times and would fall due again on March 4, 1932, and it was evident that if it were not then renewed the foreign bank creditors might exercise their option and abrogate the new agreement almost immediately after it came into effect.

The stipulation was directed principally at France. For while the French held but a small amount of the German short-term paper, their only important direct interest in German finance, apart from reparations, was their share of this 100-million-dollar loan.[18] Throughout the negotiations the French had rebelled against any agreement that preferred the private to the public creditors, and in February they had consented to renew the central bank loan for one month only instead of for three months as previously.

The bankers' stipulation, therefore, resulted in protracted negotiations with the Bank of France. A three months' extension was finally agreed to on condition that the Reichsbank would repay each of the central banks 10 per cent of its share of the loan. This having been effected, the continuation of the second "standstill" agreement became possible. As a result, Germany's private indebtedness was given preference over her political indebtedness, for the private creditors were now able to outwait the statesmen. In spite of all political protestations to the contrary, it was settled that a solution of reparations, though it would be delayed as long as possible, would have to be undertaken with the private obligations intact.

Of course, in the background of the negotiations was the fact, which no negotiations could do more than formulate, that the payment of reparations depended in every practical sense upon the maintenance of private credit. The reparation claim might already be worthless anyway, but whatever

[18] The French held 475 million reichsmarks (113 million dollars) of the Dawes and Young loans, but as these were long-term obligations, they did not count in this situation.

chance remained of reëstablishing it depended on the restoration of private credit, and not on wrecking it.

4. *Postponement of the Central European Problem*

Conditions similar to those which compelled the great powers to pursue a policy of negation, avoidance, and postponement during the winter of 1931–32 prevented any agreement designed to relieve the Danubian and the Balkan nations. Their plight was a matter of great international concern not only because of the vast misery of their people but because the strangulation of their trade and the collapse of their finance were a profoundly evil influence throughout Europe.

The first ostensible effort at relief had been the aborted proposal of an Austro-German customs union brought forward with such disastrous political results in the early spring of 1931. After the renunciation of this project in September under the pressure of France and her Central European allies, the plan of a Danubian federation setting up a customs union of Czechoslovakia, Austria, Hungary, Rumania, and Yugoslavia, was proposed. The chief sponsor of this plan was the Foreign Minister of Czechoslovakia, Dr. Eduard Beneš. It immediately encountered the objections of Germany and Italy, who saw in it a scheme to consolidate the Danubian states within the orbit of French influence, a result they opposed as firmly as France had objected to bringing Austria within the orbit of German influence.

Thus, owing to the rivalries of the great powers, nothing came of this scheme, as nothing had come of all the schemes that had preceded it. In January, 1932, the British government, cognizant of the extent of British interests in Central Europe, took a hand and proposed a customs union of the five Danubian nations with Bulgaria added. The Germans demurred. The next month the Austrian Chancellor, Dr. Buresch, made a direct appeal for economic and political assistance to the Ambassadors of France, Great Britain, Ger-

many, and Italy. There was no immediate response. But there was much discussion of the problem among the statesmen of the great powers, and late in February the French Government of M. Tardieu proposed a consultation by the four Western powers to relieve the five Danubian states. The plan seems to have been worked out by M. Tardieu and Sir John Simon, and came to be known as the Tardieu plan. It contemplated a restoration, in so far as that was possible, of the economic solidarity of the old Hapsburg Empire.

The four-power conference was held in London in April, and the Tardieu plan was laid before it by Prime Minister MacDonald. It provided for a 10 per cent tariff preferential of the Danubian states toward one another, the abolition of the quota system, a renunciation of most-favored-nation agreements by other nations, unilateral preferences to Danubian agricultural exports, and a loan of forty million dollars to meet the urgent necessities of these states.

Both Germany and Italy flatly and promptly rejected the plan, and thus ended all prospect of any immediate large solution of the Central European problem. It had been shown that the political rivalries of the powers were far stronger than their desire to take measures to promote economic recovery.[14]

5. *Tariff Policy of the United States*

The difficulty of making decisions was exemplified further by the treatment of the tariff in the Seventy-second Congress. The Democratic party, having a nominal majority, felt called upon to take some action to justify its criticism of the Hawley-Smoot tariff, and yet plainly it had no appetite for a general reduction of the rates. The Democratic leaders—chiefly, it was believed, for the purposes of the political record—decided to propose international action aimed at "lowering excessive duties and eliminating discriminatory

[14] Hamilton Fish Armstrong, "Danubia: Relief or Ruin," *Foreign Affairs*, X, 600-16, July, 1932.

and unfair trade practices and other economic barriers." This suggestion was advanced in a party bill introduced in the House of Representatives by the Democratic Chairman of the Ways and Means Committee. The measure was something of a catch-all. In addition to a proposal for a "permanent international economic conference" on tariffs, the bill provided for the appointment of a "consumers' counsel" in the United States, to represent "the public" at the hearings of the Tariff Commission; it deprived the President of power to raise or to lower rates on the recommendation of the commission and it transferred this authority to Congress; it plumped for the theory of a domestic tariff high enough to "equalize the difference in the costs of production of the domestic article and of the foreign article," and at the same time urged the President to negotiate reciprocal trade agreements with foreign governments under a policy of "mutual concessions."[15] How foreign governments were to be offered concessions under a tariff still high enough to equalize any native advantages they might enjoy in producing goods at lower cost was not explained.

Though they called for the "lowering of excessive duties" as a necessary step toward the recovery of trade, the Democratic leaders in the House proposed no change in the existing tariff rates imposed by the United States. Probably this was due, as much as to any other single factor, to a well-grounded belief that such action would have split the Democratic membership. The bill submitted to the Ways and Means Committee was passed by the House on January 9 by a vote of 214 to 182, with several changes in its text. The word "permanent" was struck from the proposal for an international tariff conference. The section authorizing the negotiation of reciprocity treaties was also deleted. This was not because the House Democrats had lost faith in it, but because it seemed appropriate that this section should originate

[15] *Congressional Record*, Seventy-second Congress, First Session, 1650.

in the Senate, the body which had to be consulted by the Executive in the negotiation of treaties.

In the Senate, where the Republicans had a nominal majority, the bill encountered difficulties. It was referred to the Finance Committee, headed by Senator Smoot, and was reported unfavorably on January 28. On the same day Senator Harrison introduced a bill virtually identical with the original House measure. This ensured the bill a place on the Senate calendar.[16] The measure was amended on the floor of the Senate by inserting the section authorizing the negotiation of reciprocal agreements. On April 1 it was passed by a vote of 42 to 30. Six Republicans, all of the insurgent wing of the party,[17] voted with the Democrats.

The House agreed to the Senate amendment, and on April 30 the bill was sent to the President. He returned it on May 11 without his approval. In his veto message Mr. Hoover expressed the opinion that "there never has been a time in the history of the United States when tariff protection was more essential to the welfare of the American people than at present." He argued that prices had declined much more in other countries than in the United States,[18] and warned Congress that foreign manufacturers in countries with depreciated currencies enjoyed special advantages in competing in the American market. The transfer of control over the "flexible" provisions from the Executive to Congress he found objectionable, because he thought that the President could act more promptly than Congress to correct mistakes. The proposal for an international conference seemed to him futile, as it meant an effort to negotiate a world tariff among sixty or seventy nations subject to the confirmation of their legislative bodies. He pointed out that the American government had participated in several international conferences

[16] *Congressional Record*, Seventy-second Congress, First Session, 2964.

[17] Senators Brookhart, Frazier, La Follette, Norbeck, Norris, and Nye.

[18] This statement is not supported by the price indices of the United States, Germany, or France, but it is correct as regards Great Britain, if currency depreciation is taken into account.

for similar purposes since the war, and that little had been accomplished.

Mr. Hoover took special exception to the provision of the bill calling for the negotiation of reciprocal treaties under a policy of mutual tariff concessions. He declared that such a policy would foster discriminatory tariffs and provoke economic wars. "A firmly established principle of the American tariff policy," he insisted, "is the uniform and equal treatment of all nations without preferences, concessions, or discriminations (with the sole exception of certain concessions to Cuba)." The efforts of the Democrats to override the veto were unsuccessful.[19]

Mr. Hoover's action marked the end of efforts in this session of Congress to invoke the influence of the United States in behalf of a general reduction of tariffs. The veto was not unexpected. Nor was it unwelcome to those Democrats who wished to keep intact their record as enemies of Republican protectionist policy and at the same time to avoid in the year of a national election the political risks of reducing rates on specific commodities. As a matter of fact, while they were applauding the principle of lower tariffs, a number of Democratic Congressmen were actively at work to obtain higher duties on commodities in which their constituents were interested.

The consequences were soon made manifest. Following the defeat of the sales tax in the House of Representatives,[20] various substitute proposals were advanced as a means of raising revenue, and among these was a plan for new tariffs, euphoniously described as excise taxes, on coal and petroleum products. These so-called excise taxes differed from all others in the bill, such as those imposed on luxuries, by being made to "apply only with respect to the importation of such articles." The obvious purpose was not to increase revenue but

[19] *Congressional Record*, Seventy-second Congress, First Session, 10311, 10312, 10316.

[20] Cf. Chapter VII.

to prevent imports. The House adopted these tariffs, and when the revenue bill reached the Senate, imports of copper and lumber were also made subject to excise taxes.[21]

The tariffs on coal and petroleum products were voted by a House controlled by the Democratic party; the tariffs on copper and lumber were imposed in the Senate with the aid of Democratic votes. The country thus witnessed the curious spectacle of a Congress voting for the abstract principle of lower tariffs and reciprocal trade agreements, while at the same time grafting on to a revenue bill a group of highly protective duties which had been demanded by small but well-organized groups of domestic producers.

Contemporaneously, it happened that there were members of Congress who felt that existing tariffs were too low. In both the Senate and the House a number of bills were introduced, calling for additional "compensating" duties, that is to say, duties on goods imported from countries with depreciated currencies.[22] Of these the Hawley bill (H. R. 8688) received most attention. It aimed to bring the rates on dutiable goods up to the amounts payable if there had been no currency depreciation in England and other countries. It provided also for duties on goods still on the free list, if they were of a kind produced in the United States, and these duties would equalize the difference in the value of the article computed in terms of the standard and of the depreciated currency. Senator Reed of Pennsylvania at this time introduced a resolution ordering the Tariff Commission to make a "thorough investigation of the effect of the depreciation in value of foreign currencies, since the enactment of

[21] Copper was then on the free list, and the new tax on lumber was in addition to that imposed by the Tariff Act of 1930. Congress was also urged to impose tariffs on newsprint and raw silk, but the campaign for these duties failed.

[22] Senate bill 2350, introduced by Mr. Jones, December 21, 1931; H. R. bills 8688 and 8752, introduced by Mr. Hawley and Mr. Goldsborough, February 1 and 2, 1932; Senate Resolution 143 and 156, introduced by Mr. Reed, January 19 and February 1; H. R. bill 9885, introduced by Mr. Knutson, February 27; H. R. bill 10797, introduced by Mr. Vinson, March 24.

the tariff in 1930, upon the importation into and exportation from the United States of all the important commodities."

The Reed resolution was adopted by the Senate on April 12.[23] In reply the Tariff Commission submitted a detailed analysis of the effect of currency depreciation on American foreign trade. It found that during the period from October, 1931, to February, 1932, the value of imports from six leading European countries off the gold standard had declined 28 per cent, compared with the corresponding period of the preceding year, while the decline in the case of six leading countries remaining on the gold standard was only 23 per cent. In terms of value, therefore, the imports from the countries off the gold standard, instead of increasing, as the advocates of higher duties so willingly believed, had actually declined. The Tariff Commission, however, pointed out that the decline in the value of imports by the United States from cheap-money countries, when expressed in terms of dollars, might have been somewhat greater than the decline in the price of goods imported from gold-standard countries, and that this did not indicate a corresponding shrinkage of volume.[24]

In spite of these findings, Congress was subjected to continuous pressure by producers demanding higher duties on articles imported from countries off the gold standard. Representatives of the American Federation of Labor, of the American Farm Bureau Federation, and of various manufacturers appeared before the House Ways and Means Committee in support of legislation imposing "compensating" tariffs. The proposal was opposed by the Chairman of the Tariff Commission, Mr. Robert L. O'Brien, who argued that the measure would levy higher duties on the products of some countries than of others, and urged that the proper policy should be one of equal treatment.[25] Under the pro-

[23] *Congressional Record,* Seventy-second Congress, First Session, 8245, 8246.
[24] *United States Daily,* May 17, 1932.
[25] This view accorded with the President's veto message of May 11.

posed plan Great Britain would be penalized, while France, which did not accord the United States most-favored-nation treatment, would not be touched.

On June 11 the Tariff Commission submitted to the Senate another report in which it was shown that the decline in commodity prices was actually raising the level of American tariff duties, in so far as the rates were specific. With wheat, for example, selling at $1.25 a bushel, the specific duty of 42 cents was equal to an *ad valorem* duty of only 34 per cent; but with wheat down to 50 cents a bushel, the same specific duty was equivalent to 84 per cent. The Tariff Commission pointed out that about half the imports dutiable under the Hawley-Smoot Act were subject to specific rates. On the average, the *ad valorem* equivalents of these rates in March, 1932, were 41 per cent higher than in July, 1930. As a result, the general level of tariff duties under the tariff of 1930 had risen approximately to 26 per cent.

Congress adjourned without enacting "compensating" duties. The net result of its tariff deliberations during the first session was a bill deploring the prevalence of high tariffs, which was vetoed by the President, and the enactment, in the guise of a revenue measure, of duties on copper, lumber, coal, and oil.

6. *Postponement of the Far Eastern Question: the Stimson Doctrine*

Finally, it is appropriate to notice here one of the most striking consequences of the inability of governments to take positive action during the winter of 1931–32. For out of this political paralysis a new and far-reaching doctrine of international law was projected upon the world. This is not the proper place in our narrative for a discussion of the developments in Far Eastern affairs, but at this point the formulation of the Stimson doctrine should be noted. This doctrine, declaring that no situation resulting from the breach of treaties would be recognized by the United States, was announced

at a time when it had been made manifest that Japan would not halt her advance in Manchuria and that the powers of the League and the United States could not and would not attempt to take positive measures to halt the advance.

By December of 1931 it was evident that the powers did not dare to set the machinery of the League in motion to restrain Japan and that the United States could not resort to the usual method of upholding its rights under the Nine-Power Treaty. It had become necessary to do something that would reserve all rights for the future without entailing any action to maintain them in the present. In this situation the Stimson doctrine was invented, and later accepted by the powers of the League when their impotence to enforce the Covenant had been demonstrated in Geneva during March. In saying this, we do not mean to pass judgment upon the doctrine itself, and such comment on it as we are able to make we are reserving for a later chapter. We simply desire to note here the circumstances and the atmosphere in which the doctrine was first formulated, because they bear directly upon the fact that the winter of 1931–32 was a period when domestic crises in all countries and a resurgence of nationalist feeling under the impact of danger and distress compelled the governments to invent devices for postponing action in international affairs.

This the Stimson doctrine did. It permitted the United States and the League to wait, without too much loss of face, for the report of the Lytton Commission of Inquiry and to postpone until November any further consideration of the Manchurian question.

7. *Democracies in a Crisis*

Thus, during the winter of 1931–32, in all the principal centers of power the statesmen in office found themselves halted by the lag of public opinion. Most of them had climbed to power by cultivating the public opinion which now prevented them from taking the action which privately

they desired to take. Most of them were in a position where plain speaking and an attempt to lead public opinion would have meant their downfall and the rise to power of men even more irreconcilable than they were themselves. In each country, measures of international reconstruction were opposed by powerful special influences, by the sentiment of nationalism, and by that mass opinion which still believed the formulæ of an earlier time and had not yet brought its convictions abreast of the situation.

It became necessary, therefore, for statesmen to wait until the pressure of events brought public opinion to a realization of the truths that public men did not dare to utter. Throughout the winter of 1931–32 they watched the deterioration of the economic life of the world and could do nothing but hope that as conditions became worse, public opinion would become wiser.

CHAPTER THREE

ECONOMIC DETERIORATION IN THE PERIOD OF POSTPONEMENT

1. *The Decline in the United States*

WHILE the governments found it impossible to take action and to reach agreements, the expected happened. Conditions grew worse. In the present chapter we shall note the economic losses suffered during the period of postponement, in so far as they can be measured by the yardstick of available statistics.

When Congress convened in December, 1931, business activity in the United States had been contracting almost without interruption for a period of twenty-nine months. The indices of production, distribution, and employment then showed an average decline of about 40 per cent from the high point reached in 1929, and of about 30 per cent from the level of 1923–25. During the first six months of 1932 these indices fell still further.

By the end of June, 1932, industrial production was more than 50 per cent below the average level for 1929. Construction operations, outside of public works, were almost at a standstill. Freight car loadings, one of the most dependable indices of business activity, showed the smallest volume for any year since 1918, when such data first became available. Factory employment had fallen more than 40 per cent below the level of 1929 and industrial payrolls had been cut in half.[1]

These figures, however, do not adequately suggest the

[1] Cf. Appendix V (*e*).

extent of the losses suffered during the period of postponement. For a clearer picture of conditions in the United States at the end of the first half of 1932, it is necessary to consider changes at certain points in more detail and particularly to note the effect of continued depression on (i) prices, (ii) profits, (iii) financial and commercial failures, (iv) unemployment and wage deflation, (v) the position of agriculture, and (vi) foreign trade.

(i) *Prices*

In itself both a cause and a consequence of the depression, the downward trend of commodity prices continued without respite during the first six months of 1932. The index of wholesale prices prepared by the United States Department of Labor had fallen by 14 per cent in the period from January, 1931, to January, 1932. Between January and June, 1932, it had declined by an additional 5 per cent. Prices which had seemed ruinously low in 1931 fell still lower in 1932. Thus, cotton, which had reached the low level of 8½ cents a pound in June, 1931, sold on June 8, 1932, below 5 cents a pound, the lowest price in thirty-two years. Wheat fell from 56 to 50 cents a bushel during the same period, corn from 56 to 31 cents, copper from 8 to 5½ cents, pig iron from $17.25 to $14.85 a ton, rubber from 6½ to 2¾ cents a pound, and silk from $2.30 to $1.20 a pound.

No important commodity escaped deflation. The recession in the general level of prices between July, 1929, and June, 1932, amounted to 35 per cent. Not only was this one of the most severe deflations of which modern business has record; the evil effects of so swift and so persistent a decline in the value of goods produced by human labor were intensified by a capricious disproportion in the extent of losses suffered by different groups of commodities, with a consequent dislocation of the equilibrium previously established between wholesale and retail prices, between prices of raw materials and

prices of finished goods, between prices of producers' goods and prices of consumers' goods, and between selling prices and costs of production.

Meantime, as commodity prices fell, the trend of security prices also continued downward. The following table shows the average price of 421 stocks and of sixty high-grade bonds in the last month of each quarter between January, 1931, and June, 1932:

	Stocks[2]	Bonds[2]
Mar., 1931	122	100.0
June, 1931	95	99.4
Sept., 1931	82	95.6
Dec., 1931	58	81.6
Mar., 1932	57	80.6
June, 1932	34	72.2

Weakness in the security markets, so evident in this table, was a deterrent to the flotation of new security issues. The total for 1931 was only a little more than half (52 per cent) of that for the previous year and only about a third (34 per cent) of that for 1929. During the first half of 1932, total flotations, excluding refunding operations, amounted to only $661,290,000, compared with $2,221,500,000 for the corresponding period of 1931, $4,867,647,000 for the first half of 1930, and $5,433,621,000 for the first half of 1929. Flotations during the first six months of 1932 were smaller than those for any corresponding period since the World War.

We shall have occasion in a later chapter to note a similar contraction in the volume of foreign issues.

(ii) *Profits*

Deflation of prices necessarily played havoc with business profits. Figures prepared by the Federal Reserve Bank of New York, based on the annual earnings statements of 719 business concerns, showed that net profits in 1931, after the

[2] Standard Statistics Company index.

payment of fixed charges, were 61 per cent smaller than in 1930, and 78 per cent below those in 1929. Both railways and industrial companies suffered severely. The net operating income of 171 Class I railroads was 40 per cent smaller in 1931 than in 1930 and 58 per cent smaller than in 1929. During the first six months of 1932 earnings were still falling. There are no official data of dividend payments by all classes of corporations, but unofficial records indicated an average decline of 30 per cent in this period, compared with the corresponding months of 1930.[3]

As earnings declined, both railways and manufacturing industries found it necessary to reduce or to omit dividends. By the end of June, 1932, only four of the railways whose stocks were active on the New York Stock Exchange were still paying dividends on their common shares, and the dividends of two of these had been reduced.[4]

(iii) *Failures*

The reduction or omission of dividends was followed in many cases by receiverships and failures. During 1931 nineteen railroads, with a total capitalization of $432,151,526, were placed in receivership. The extent of bank and commercial failures during 1931 and the first half of 1932 is shown in the following table:

	Banks	Commercial Institutions
First quarter, 1931.....	365	8,483
Second quarter, 1931.....	320	7,627
Third quarter, 1931.....	456	5,863
Fourth quarter, 1931.....	1,055	7,315
First quarter, 1932.....	514	9,141
Second quarter, 1932.....	307	8,292

[3] Cf. Appendix V (*f*).

[4] These four roads were the Chesapeake and Ohio, the Delaware and Hudson, the Norfolk and Western, and the Union Pacific. The dividends of the two last-named had been reduced.

The establishment of the Reconstruction Finance Corporation and the adoption of other remedial measures noted in another chapter,[5] substantially reduced the number of bank failures in the first half of 1932 from the appallingly high figure reached in the last quarter of 1931. But commercial failures continued in unprecedented number and with steadily increasing losses, as the following table shows:

Year	Number	Liabilities
1929.....	1,909	$40,271,000
1930.....	2,196	55,690,000
1931.....	2,357	60,776,000
1932 (six months)..	2,905	89,547,000

(iv) *Unemployment and Wage Deflation*

An inevitable consequence of business failures, of falling prices, and of operating deficits in place of operating profits, was a reduction of employment and a deflation of wages. During the first four months of 1931 the Federal Reserve Board's index of factory employment, adjusted for seasonal variations, had remained at a fairly constant figure, about 22 per cent below the average of 1923–25. Between April and December, however, the index fell from 78 to 69.4, and this recession continued during the first six months of 1932. In June the index stood at 60, only a little more than half the figure for 1929, when the average for the year was 102.

The decline in payrolls was still more marked, indicating that wage reductions were accompanying the discharge or suspension of workers. The Federal Reserve Board's index of payrolls fell from an average of 109.1 in 1929 to 68.0 in 1931. In June, 1931, it stood at 67.6; by June, 1932, it had fallen to 42.6. This decline of 37 per cent in twelve months reflected both the increase in unemployment and the decrease in wages.

For workmen who remained employed, lower wages and

[5] Cf. Chapter VII.

fewer working hours were only partially offset by the decline in the cost of living. Between June, 1931, and June, 1932, the cost-of-living index of the National Industrial Conference Board fell from 85.9 to 77.2.

(v) *The Position of Agriculture*

The Department of Agriculture estimated the total value of farm crops in the United States in 1929 at 8,088 million dollars, in 1930 at 5,819 millions, and in 1931 at 4,213 millions. The decline in crop values between 1929 and 1931 amounted to 49 per cent and represented a decrease of nearly 4,000 million dollars in the farmers' gross income. This great shrinkage was the result of lower prices rather than of smaller output. The yield of the leading crops in 1931 was actually about 10 per cent greater than in 1929, but the prices at which they could be sold declined by nearly 40 per cent. Efforts of the Federal Farm Board to effect a substantial reduction of output and a stabilization of prices failed in their objective. The cotton crop of 1931 was 15 per cent larger than the crop of 1928 and had a value of 60 per cent less. The wheat crop of 1931 was about 2 per cent less than that of 1928, and its value was 55 per cent less.[6]

(vi) *Foreign Trade*

Finally, among other evidences of economic deterioration during the first half of 1932, it is necessary to note a heavy loss of foreign trade. Between 1929 and 1931 the value of American exports had already declined by more than 53 per cent and the value of imports by more than 51 per cent. During the first six months of 1932 these losses were extended. The table on the following page shows how far the value of exports and of imports during these six months fell below the corresponding figures for the same months of the poor year 1931.

[6] Cf. Appendix V (*d*).

FOREIGN TRADE OF THE UNITED STATES

(In thousands of dollars)

1932	Exports	Decline from Previous Year	Imports	Decline from Previous Year
Jan.....	150,022	39.9%	135,530	25.6%
Feb.....	153,972	31.2	130,978	25.1
Mar.....	155,250	34.3	131,189	42.4
Apr.....	135,359	37.5	126,522	31.7
May.....	132,065	35.3	112,276	37.7
June.....	114,259	39.0	110,200	36.5

Measured in terms of value, American exports during the first half of 1932 were the smallest for the corresponding period of any year since 1910, and imports were the smallest since 1909. In both cases, part of the loss was due to lower prices, particularly of raw materials. But when due allowance is made for price changes, the data show an unmistakable shrinkage in the volume of trade itself.

One significant consequence of the loss of foreign markets was the reversal of a long-established trend in American foreign trade. For many years before 1931, exports of manufactured goods had been increasing far more rapidly than exports of raw materials. In 1900, manufactures comprised only about 24 per cent of the total value of the goods we sold abroad; by 1930, they had increased to more than 50 per cent. The figures furnish one means of measuring the profound industrial and social changes which had taken place in the United States during these years. Steadily expanding markets in foreign countries for our manufactures played an important part in the development of American industrialization, the establishment of a high wage scale, and the perfection of modern methods of manufacturing.

With the deepening of the depression, the trend of American export trade was now reversed. The decline in exports of raw materials was relatively small; the shrinkage in exports of manufactures was much greater. During the first six months of 1932, exports of raw foodstuffs and raw materials

declined by 10.4 per cent and by 9.3 per cent respectively, but exports of manufactured goods declined by 40.3 per cent and exports of finished goods by 47.3 per cent.

Loss of foreign markets was particularly severe in the case of industries manufacturing steel products, farm machinery, electrical apparatus, automobiles and motor trucks, office equipment, and industrial machinery.

2. *The Decline Abroad*

While conditions in the United States were thus growing worse, no turn for the better appeared in countries which purchased goods from us in steadily decreasing volume and attempted, in turn, to sell us their own products. Occasionally, as in England during the first quarter of 1932, there came brief periods when the depression seemed to be lifting, but the improvement in such cases proved to be of short duration.

It is unnecessary to consider in detail losses of industrial activity, profits, and employment which parallel at many points our own experience during the depression. But the rapid increase of surplus stocks of raw materials, accompanied by a general breakdown in the level of world prices, must be noted as one of the most destructive influences at work during the first six months of 1932.

In Europe and Australia, the Far East and Latin America, producers of raw materials were driven inexorably to increase their output in an attempt to offset lower prices. The result was a further decline in values and in the purchasing power of producers of raw materials. The decline of purchasing power played its inevitable part in the downward spiral of diminishing demand, curtailment of industrial production, and falling prices.

Since the production of raw materials could not be adjusted readily to reduced demand, the decline of purchasing power was followed by an accumulation of surplus stocks. The following table shows how rapidly the surplus increased

in the case of five commodities of great importance in world trade:

(1929 = 100)[7]

	Month	1929	1930	1931
Wheat.....	Aug.	100	95	106
Cotton.....	Dec.	100	129	148
Sugar.....	Dec.	100	124	153
Coffee.....	Mar.	100	177	188
Rubber.....	Mar.	100	151	233

During the first six months of 1932 the accumulation of surplus stocks continued. In this period the carry-over in world supplies of both wheat and cotton reached a new high figure. More than one-third of a year's production of sugar was begging for buyers. More than enough coffee and rubber were available to supply a year's demand. There was also a large accumulation of surplus stocks of the more important metals, especially copper, lead, tin, zinc, and aluminum.

Under the weight of these unwanted surpluses, commodity prices continued to sag, even in countries which had been forced off the gold standard. In Great Britain, Japan, and the Scandinavian countries the trend of prices during the first half of 1932 was persistently toward lower levels, though the currencies of these nations were no longer linked with gold. In a few countries, notably Chile and Peru, where actual currency inflation had made some headway, the price trend was upward; but these cases were exceptional.

In general, it may be said that world prices in terms of gold fell by 30 per cent, or perhaps by as much as 35 per cent, between midsummer of 1929 and midsummer of 1932.[8] This estimate is based on indices which include numerous commodities whose prices were maintained at wholly artificial levels by means of trade restrictions. Indices based only on commodities whose prices were governed by free competi-

[7] This index is based on data from the *World Economic Survey, 1931–1932*, League of Nations Publication, Official No. A. 18. 1932. II, 93, 94.

[8] Cf. Appendix V (*b*).

tion in world markets would undoubtedly show much greater declines. Several such indices, composed solely of prices of the more sensitive commodities, were assembled in 1932 by the Economic Intelligence Service of the League of Nations.[9] In each case they showed a recession of from 55 to 66 per cent during the three years of the depression.

3. *The Decline of World Trade*

Owing partly to this decline in the level of world prices, foreign trade suffered a further sharp contraction in 1932. We have already noted that during the first half of this year the value of our own exports reached the lowest point for any corresponding period since 1910. Our experience in this respect was shared in varying degree by all other important trading nations. For the six months from January to June, 1932, British exports of domestic products declined in value by 6 per cent, compared with the corresponding figure for the same six months of 1931; those of France declined by 37.9 per cent; of Germany, by 35.2 per cent; of Italy, by 31.1 per cent; and of Canada, by 23.7 per cent.

As in our own case, part of this decline was due to the lower prices at which goods in international trade were bought and sold. But the fact that volume declined as well as value is clearly shown in those cases in which quantity figures are available. On a basis of reported tonnage, German exports and imports declined by 22.7 per cent and by 26 per cent respectively during the first half of 1932, compared with corresponding figures for the first half of 1931. French exports and imports declined by 22.1 per cent and by 20.5 per cent respectively.[10]

For many countries, no data concerning volume are available. But it is evident that in terms of value the total for-

[9] Cf. *World Economic Survey, 1931–1932,* 120-122.

[10] Though the data are not strictly comparable, it is possible to give a rough indication of the trend in the volume of the foreign trade of the four leading commercial countries, the United States, Great Britain, Germany, and France. This is shown in Appendix III (*d*).

eign trade of the world, which had already fallen in 1931 about 40 per cent below the level of 1929, declined in the first six months of 1932 to about half the figure for that year of high prices, large profits and comparatively little unemployment.

To this extent had the economic deterioration within the different nations reflected itself in a paralysis of their international commerce.

CHAPTER FOUR

DISTURBANCES IN LATIN AMERICA

1. *The Economic Crisis*

THE growing severity of the depression in the early months of 1932 had its effect on the relations of the United States with its Southern neighbors. The countries of Latin America are producers mainly of primary materials, and these commodities continued during 1932 to bear the brunt of price deflation. The prices of sugar, wheat, beef, cattle, hides, wool, tin, and copper were all brought to new low levels. There was some improvement during the year in the price of coffee and of petroleum, but not enough to weaken the grip of the depression in the regions where these commodities were produced.

The volume as well as the value of exports had declined, and the consequent disturbance of the trade balances led to the general adoption of exchange control and high tariff rates with a further strangulation of international commerce.[1] The governments found it increasingly difficult to obtain the foreign exchange needed for service on their external debts. Bolivia, Brazil, Chile and Peru had defaulted in 1931. Colombia and Uruguay in 1932 were unable to meet payments on their sinking funds, and a number of the state and municipal governments of South American republics were likewise in default.[2] Colombia and Venezuela were the only important countries whose foreign exchange was main-

[1] Every country in South America except Peru had resorted to some form of exchange control between 1930 and 1932. Cf. Appendix III (*a*).

[2] Cf. Chapter V.

tained near parity,[3] and at the end of 1932 only vestiges of the gold standard were to be found in Latin America.

2. *The Interest of the United States*

The financial difficulties of these countries were of especial interest to the people of the United States because of their large investments in that area. More capital from the United States had been invested in Latin America than in all of Europe. An estimate by the Department of Commerce showed a total investment in Latin America at the end of 1930 of between 5,150 and 5,350 million dollars, compared with an investment of 4,500 millions in Europe.[4]

The amounts of Latin American securities publicly offered in the United States during the years 1920–31, with refunding issues deducted, are shown in the following table:

(In thousands of dollars)

Year	Government[5]	Corporate	Total
1920....	—	49,050	49,050
1921....	187,486	42,142	229,628
1922....	159,775	63,899	223,674
1923....	67,500	47,191	114,691
1924....	114,555	72,399	186,954
1925....	109,951	48,825	158,776
1926....	238,490	84,690	368,180
1927....	277,081	62,619	339,700
1928....	283,198	91,880	330,078
1929....	65,548	109,402	174,950
1930....	177,112	17,338	194,450
1931....	None	None[6]	—

This table gives only a partial picture of the financial stake of American investors in the South American and Caribbean

[3] The countries using United States currency, as, for example, Cuba and Panama, obviously had less of an exchange problem.

[4] *A New Estimate of American Investments Abroad.* U. S. Department of Commerce, Trade Information Bulletin No. 767, 1931.

[5] Including government-guaranteed.

[6] There was one issue in 1931 for a Cuban sugar company, but as this was for refunding other securities already outstanding it is not included in this tabulation.

countries; for about 68 per cent of their investment was in some form other than securities. The general character of the investments was determined by the predominant industries in each country. Where the chief industry was mining, as in Bolivia, Chile and Peru, the investment was made, for the most part, directly in properties. On the other hand, agricultural countries like Argentina and Brazil did not attract direct investments and obtained the greater part of their capital through the flotation of bonds in foreign financial centers, mainly New York and London. The government of Venezuela was unique in having no external debt, but there was a large investment of American capital in the Venezuelan petroleum industry.

The following table shows the total investment of capital from the United States in the principal countries of Latin America and the proportion of direct investments and of security investments at the end of 1930, as estimated by the Department of Commerce:

	Total (in thousands of dollars)	Direct Investment (per cent)	Security Investment (per cent)
Cuba	1,066,551	85	15
Mexico	810,571	85	15
Argentina	807,777	45	55
Chile	700,935	63	37
Brazil	557,001	38	62
Colombia	301,692	43	57
Venezuela	247,238	100	—
Peru	200,085	62	38
Bolivia	116,043	53	47
All others	551,878	76	24
Total	5,359,771	68	32

As between Latin America and Europe, the American methods of investment differed widely. Nearly two-thirds of the investment in Europe had been effected through the public sale of securities, but barely one-third of the invest-

ment in Latin America had been made in this way. The remainder represented a direct investment in properties. Most of the Latin American securities, moreover, had either been issued directly by the central governments or their political subdivisions, or they had the support of a government guarantee. Only 2 per cent of the Latin American securities held in the United States had been issued on the unsupported credit of private corporations, whereas 20 per cent of the European issues were of that description.

3. *Political Disturbances*

A series of political disturbances and revolutions had begun in 1930,[7] and between 1930 and 1932 only three of the ten republics of South America—Colombia, Uruguay, and Venezuela—had escaped. Of those which had undergone a radical change of government, Argentina in 1932 was the only one that appeared to be making progress. That country in 1932 had a favorable balance of trade, and had maintained the service on its external debt.

The revolutions of 1930–31 had not provided a cure for any country's economic troubles; they had indeed intensified them. For even had there been no political upheavals, the depression would probably have increased in Latin America, as it did in the rest of the world during the first half of 1932; but the military and political complications produced by the revolts made conditions still worse. Consequently, the new revolutionary governments faced problems far more difficult than those which had caused the overthrow of the preceding régimes. In South America during 1932 there was a civil war in Brazil, a bewildering series of revolts in Chile, a violent but short-lived political disturbance in Ecuador, and a naval mutiny and attempted revolution in Peru. There was trouble also in the Caribbean area, with revolution in Honduras, a brief disturbance in Costa Rica, and prolonged political tension in Cuba.

[7] Cf. *The United States in World Affairs, 1931*, Chapter V.

The Latin American revolutions of 1930 and 1931 had been almost uniformly successful, and were marked by comparatively little violence and bloodshed.[8] The disturbances of 1932 were of a different order. They were more violent, and most of them were unsuccessful. It cost more in blood and treasure to prevent changes in 1932 than it did to effect sweeping changes in 1930–31. The earlier movements were for the most part popular uprisings against autocratic and long-established régimes. In 1932, factional or regional jealousies and misunderstandings played a greater part.

A. *Civil War in Brazil*

The Brazilian revolution of 1930 had created a grievance in the large and populous state of São Paulo; it had lost its ascendency in the federation. President Washington Luis and President-elect Julio Prestes, both of whom came from that state, had been displaced, and a Provisional President, Dr. Getulio Vargas from the state of Rio Grande do Sul, had succeeded to the office.[9] São Paulo was dissatisfied with the new régime. It was treated somewhat like a conquered territory, being governed by a personal representative of President Vargas, supported by federal troops and the state police. When the Provisional President showed little interest in a prompt restoration of constitutional government, much friction followed, and this spread beyond São Paulo and led to the resignation of the liberal members of the Vargas Cabinet.

In the spring of 1932 the issue came to be clearly defined between the maintenance of a military dictatorship and a return to constitutional government. Unrest was intensified by the growing economic depression, and opposition to the government was naturally centered in São Paulo. On July 9 at midnight a popular uprising broke out in the city of São Paulo. The revolt soon spread throughout the state. Among the Paulistas there was tremendous enthusiasm for the new

[8] Cf. *The United States in World Affairs, 1931*, Chapter V.
[9] *Ibid.*, 57–58.

revolution. Women gave up their jewels for the cause, and recruiting was active for the São Paulo army. There was much sympathy with the revolt in the neighboring state of Minas Geraes and in Rio Grande do Sul, but there the movement was repressed by the prompt action of the federal government. Both sides placed large forces in the field, well equipped with modern artillery, tanks, and airplanes, but the Federals were the stronger and gradually gained the upper hand.

The conflict came to an end on October 3, after federal and revolutionary forces variously estimated at from 130,000 to 200,000 men had taken the field. The Vargas Government dealt moderately with the revolutionists. Amnesty was granted to all except those directly responsible for the war; the leaders were deported, and some others were deprived of their civil rights. São Paulo was promised a civil government under a Paulista governor; a new federal constitution was to be drafted, and general elections were to be held on May 3, 1933.

The revolution demonstrated the strength of the federal government, and it apparently completed the work begun in the revolution of 1930, in so far as that uprising was aimed at preventing the state of São Paulo from becoming too powerful in the Brazilian federation. But before the situation could be stabilized the commission appointed to draft the new constitution had to solve the problem of adjusting the balance among the more powerful states of Brazil while maintaining the principle of local self-government in each state.

B. *Revolutions in Chile*

It was in Chile, which for decades had been a model of political order and stability, that the revolutionary movement during 1932 went to the greatest extremes. The overthrow of General Ibañez in July, 1931, had been followed by the peaceful election of Dr. Juan Esteban Montero to the

Presidency.[10] President Montero had not sought the office. He was the involuntary candidate of the moderate element—lawyers, doctors, and others in the same social stratum—who persuaded him to accept the position. According to one of his critics, he was "too constitutional for these trying times."[11] The revolutionary fever which was responsible for his accession had not run its course, but while the country drifted into deeper economic distress he acted as if it had done so, and sought to govern as if nothing had happened.

The outcome was a *coup d'état* on June 4, 1932, led by Colonel Marmaduque Grove and Señor Carlos Davila. They set up a military junta in place of the constitutional régime. The junta announced a radical socialistic program and gave proof of its purpose by taking possession of the Central Bank and by issuing a decree confiscating deposits of foreign money in all the banks and promising the owners the equivalent in Chilean currency. The members of the junta soon fell to quarreling among themselves. Colonel Grove wished to establish a socialist régime at once and to deal brusquely with foreigners, while Señor Davila, who had been Chilean Ambassador in Washington, was less radical and more respectful of foreign governments. Señor Davila was forced out of the junta and was about to be sent into exile, when the army and navy revolted. On June 17 Colonel Grove and his associates were forced out of the government, and Davila was reinstated at the head of the new junta. It was now Colonel Grove's turn to go into exile. He was banished to Easter Island, about 2,300 miles off the Chilean coast.

The Davila junta restored the Central Bank to its previous status. But when the directors and officers found the government committed to a program of currency inflation, they resigned, and new officers more amenable to government in-

[10] *The United States in World Affairs, 1931*, 59–60.

[11] Letter from Chile, June 27, 1932. Information Service, Council on Foreign Relations.

fluence were appointed. More currency was issued, and public expenditures were increased in an effort to reduce unemployment. Señor Davila announced that everyone would be employed and happy by September 1. This prophecy was not fulfilled. On September 13, after less than three months in office, he too was deposed by a group of army and navy officers.

General Bartolome Blanche was next installed as Provisional President. The new Administration announced that an election would be held on October 30 to choose a new President, but this did not satisfy the civilian political parties, which had grown weary of the intrigues of military cliques. During the last week of September, revolt broke out in the state of Antofagasta. The officials there threatened to set up an independent government unless a civilian administration promptly replaced the military régime at the capital. To avert this threat of civil war, General Blanche retired in favor of Señor Abraham Umberto Oyanedel, the Chief Justice of the Chilean Supreme Court. The election of October 30 resulted in the choice of former President Arturo Alessandri. Colonel Marmaduque Grove, who landed in Chile from his distant place of exile on election day, won second place in the contest.

Chile had suffered more acutely from the industrial depression than most of her neighbors. For her prosperity depended almost wholly on exports of nitrates and copper, and trade in these had drastically declined. The result was such widespread social unrest that after the overthrow of General Ibañez no political group was able to rally enough support to remain in office for more than a brief period. The intellectual and professional classes had their chance to improve conditions under Dr. Montero; the radical groups next had their chance under Colonel Grove and Señor Davila, and the military group then had a turn with General Blanche. They all failed. All were powerless to control the economic forces of which their country was a victim.

On October 21 the governments of the United States and Great Britain formally extended recognition to the Oyanedel Government. In taking this action, the government of the United States was following its established policy of according recognition when the evidence showed that the new government was in actual control, that there was no active resistance to its rule, and that it intended to discharge its international obligations. It was also understood that in this instance, as in the case of the Latin American revolutions of 1930 and 1931, our Department of State had acted promptly in order that, under the unfavorable economic conditions, there might be no political obstacles to the progress of trade recovery.[12]

C. *Non-Recognition of El Salvador*

The recognition policy to which the United States adhered in dealing with Chile was not followed in the case of El Salvador. There were special reasons. In December, 1931, a revolution in that country resulted in the overthrow of President Arturo Araujo and the accession to the Presidency of General Maximiliano Martinez, the Minister of War. It appeared that the new régime was accepted by the people of that republic. But in accordance with the so-called five-power treaty of 1923, which was negotiated by the Central American republics and endorsed by the United States, the Department of State refused to recognize the new Salvadorean Government.

The purpose of this treaty was to promote greater political stability in Central America by withholding recognition from governments set up by revolutionary means. This policy had originated in an agreement reached at the Central American Conference in Washington in 1907. An "additional convention" attached to the general treaty of peace and amity negotiated at that conference contained the following clause:

[12] Department of State Press Releases, September 17, 1930, October 22, 1932. See also *The United States in World Affairs, 1931*, 64.

The governments of the High Contracting Parties shall not recognize any other government which may come into power in any of the five republics as a consequence of a *coup d'état* or of a revolution against the recognized government, so long as the freely elected representatives of the people thereof have not constitutionally reorganized the country.[13]

In the treaty of 1923 this was repeated and made more effective by the addition of the following clauses:

And even in such a case they obligate themselves not to acknowledge the recognition if any of the persons elected as President, Vice President, or Chief of State Designate should fall under any of the following heads:

(1) If he should be the leader or one of the leaders of a *coup d'état* or revolution, or through blood relationship or marriage, be an ascendant or descendant or brother of such leader or leaders.

(2) If he should have been a Secretary of State or should have held some high military command during the accomplishment of the *coup d'état*, the revolution, or while the election was being carried on, or if he should have held this office or command within the six months preceding the *coup d'état*, revolution, or the election.[14]

General Martinez as Minister of War had held "some high military command during the accomplishment of the *coup d'état*." Thus there was possibly a double bar to his recognition as President.[15] Nevertheless, he was President *de facto* and apparently a successful administrator, and it was only after strong representations by our Department of State that the British government, which had not endorsed the five-power treaties, was persuaded to withhold recognition in the spring of 1932. For it is customary for Great

[13] *Papers Relating to the Foreign Relations of the United States*, 1907, part 2, 696.

[14] Documents of the American Association for International Conciliation, 1923, 638–639.

[15] El Salvador had ratified the treaty of 1923 with reservations as to this clause, and the extent to which the four other governments which had ratified unconditionally were obligated to withhold recognition from its new government on this ground was a moot question. But the question was also academic, since the revolutionary origin of the government brought it fully within the prohibitions fixed by the treaty.

Britain and the United States to consult before recognizing new governments in their respective spheres of influence.

The decision of the United States to abide by its commitments in Central America caused some financial loss to its citizens. Under a debt agreement of 1923, American creditors of El Salvador obtained six million dollars in bonds secured by a first lien on the customs. British creditors held a somewhat smaller amount with a second lien on the customs. After the revolution these bonds were in default, and the United States could not approve the appointment of a customs administrator in El Salvador to insure the service on the debt, as provided for in the debt agreement, without recognizing the new Government.

The British creditors also suffered from this policy. This fact, plus the desire of the British to continue a trade agreement with El Salvador and to safeguard their markets, made their government anxious to maintain effective representation.[16] In September, in spite of the objections of our Department of State, Great Britain and France simultaneously extended formal recognition to the Salvadorean Government, and Belgium, Ecuador, Italy, Poland, and Spain quickly followed. In Washington this action was resented, for it seemed that for the sake of an immediate small trade advantage these governments had weakened a policy which would check revolutions and in the long run vastly increase their opportunities for trade in Central America. At a time when revolutions were so frequent, Washington regarded it as desirable that such machinery as existed for their prevention should not be impaired but strengthened.

In the meantime there were indications that the five-power agreement was unsatisfactory to several of the Central American governments. The Martinez Administration in El Salvador, naturally, found it objectionable. The government of Costa Rica, for some reason, was sympathetic with the Martinez régime, and on November 9 President Ricardo

[16] *Times* (London), September 28, 30, 1932.

Jimenez, after stating that the treaty of 1923 had not always worked well, declared that it was the intention of his government to denounce it before January 1. Under the terms of this five-power agreement, any signatory government might denounce it on one year's notice and it would become inoperative, so far as that government was concerned, within twelve months. On November 18 it was reported at the Costa Rican capital that the Foreign Minister, Dr. Leonidas Pacheco, would visit the other Central American capitals by airplane and urge a united movement for the abrogation of the treaty.[17]

As the government of Honduras had been confronted with a revolution since June, there were good reasons why it should adhere to the treaty and retain the protection which the non-recognition provision seemed to offer. In Nicaragua, where political turmoil had long prevailed, the newly elected President, Juan Sacasa, was about to take office, and there were reasons also why he should desire the protection which the five-power treaty would give his administration.

4. *International Disputes*

During 1932 the strife in Latin America was not confined within the borders of individual states. The relations of several republics toward their neighbors became so strained that diplomatic contacts were severed. Peru broke off relations with Mexico in May because of the alleged sympathy of the Mexican legation with the revolutionist element in Lima. Argentina and Uruguay suspended diplomatic relations on July 3, as a result of the activities of Argentine political exiles in Montevideo, but relations were resumed two months later. Friction also developed between Argentina and Chile over tariff restrictions on the shipment of their products across the Andean boundary, and service on the Trans-Andine Railway was temporarily suspended in April because the

[17] On December 24 the Costa Rican government gave formal notice to other governments that it had denounced the treaty.

trade barriers between the two countries had almost destroyed traffic.[18]

A. *The Leticia Incident*

A serious quarrel between Colombia and Peru followed the seizure of the Colombian settlement of Leticia on the upper Amazon by a force of Peruvian civilians on September 1. This territory was not in dispute between the two governments. Leticia had been ceded to Colombia by Peru under a treaty negotiated in 1922 and ratified by the respective governments in 1925 and 1927. The leaders of the foray insisted that they were acting to protect Peruvians in this area from ill treatment by Colombia. This seizure was accomplished without bloodshed, and the local authorities of Iquitos, a Peruvian settlement on the upper Amazon where the raid had been organized, gave their support to the movement and called on their government to obtain a revision of the treaty.

Neither government at first regarded the seizure as a serious matter, and Colombia expressed confidence in the readiness of Peru to uphold all treaty obligations. The Peruvian government, while disavowing and condemning the seizure in confidential communications to the Colombian government, hesitated to make a public disavowal. Because of the expressed determination of the people of Iquitos and the surrounding territory to retain control of the captured town, it urged the Colombian government to take no forcible action, as this might arouse "unrestrainable national aspirations" and evoke an alarming response throughout the country. Peru then took steps to have the issue submitted to arbitration under the Washington Convention of 1929, but Colombia insisted that inasmuch as the Peruvian government had not disputed her territorial rights there was nothing to arbitrate and that any action she might take toward the dis-

[18] Dispatches from Buenos Aires in November announced plans for the resumption of traffic as a result of a six-month agreement between Argentina and Chile for the lowering of trade barriers.

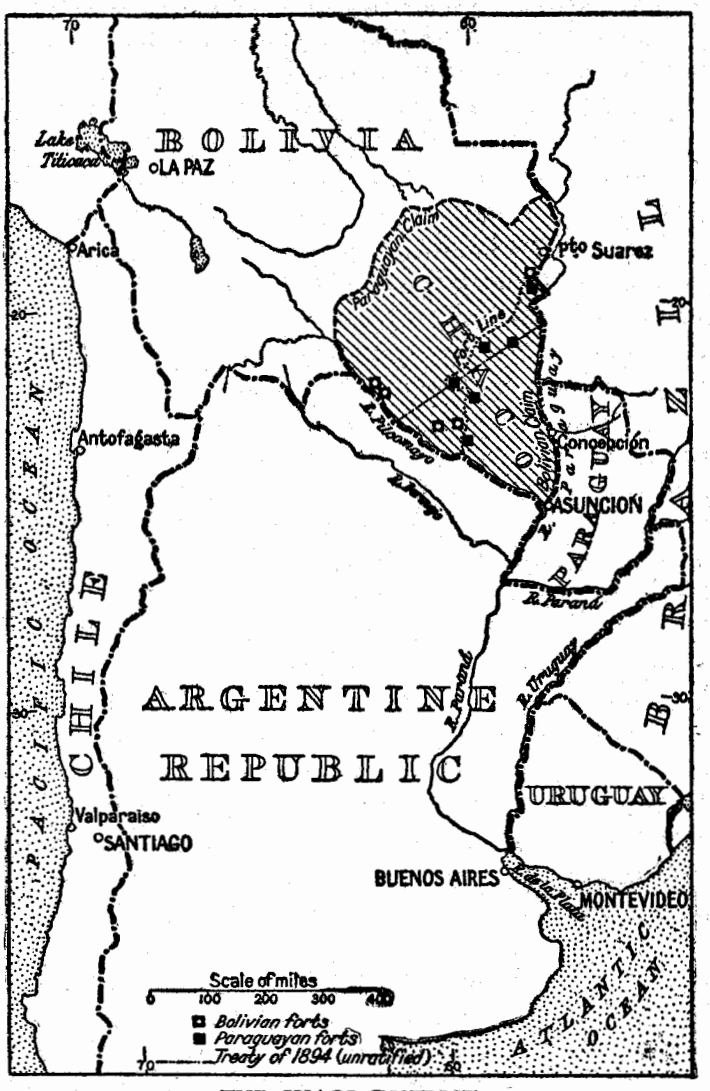
turbers of the peace at Leticia was exclusively a matter of domestic jurisdiction. When the Colombian government finally announced its intention to maintain its territorial rights by force, its population responded with an outburst of militant enthusiasm. The war spirit then flared up in Peru, and both countries, in spite of their financial difficulties, began to mobilize their forces and to purchase supplies and armament. This quarrel at least had the effect of uniting the people behind their governments and warding off possible domestic political complications resulting from the unfavorable economic situation.

B. *The Chaco Dispute*

The Chaco is a region about 700 miles long and 300 miles wide between the Paraguay River and the foothills of the Andes.[19] It is a geographical area rather than a well-defined political unit. Title to the southern part is vested in Argentina and is not in dispute. This territory has been developed under Argentine auspices, is served by railroads, and is an important producer of timber, cotton, and quebracho.

The profitableness of these industries gave the less developed and less inviting Northern Chaco, or Chaco Boreal, much potential value in the eyes of both Bolivia and Paraguay, and a dispute between these two nations as to their respective territorial rights in the region had been under way for half a century. Bolivia based her claims on boundaries supposed to have been established under the Spanish colonial régime, while the opposing claims of Paraguay were based mainly on the effective occupation and colonization of the territory by her nationals. The Paraguayan government offered these lands in vast tracts at low prices in order to encourage their settlement, and the territorial claims of Bolivia

[19] The name is supposedly derived from *charco*, a Spanish word meaning a stagnant pool. During the rainy season the pampas in this region are flooded. When the floods recede, vast tracts of shallow water, some of them many hundred square miles in area, appear at intervals over the plains.



THE CHACO DISTRICT

The Shaded Area Indicates the Conflicting Claims of Bolivia and Paraguay and Also Shows How Bolivia Was Seeking an Outlet to the Atlantic by Way of the Paraguay River.

challenged the validity of the titles. The Paraguayan claims in the Chaco covered a larger area than Paraguay proper.

Bolivia has over six times the area and three times the population of Paraguay, and unlike that country was not impelled by land hunger to assert her claims to the Chaco. She was interested not so much in territorial enlargement as in obtaining direct access to the sea. Bolivia is the only republic in South America which has no such outlet. As a result of the war of the Pacific (1879–83), in which she fought with Peru against Chile, Bolivia had lost her Pacific ports. In 1889 she had relinquished her claims over a portion of the Chaco to Argentina, and had thus weakened her claims to access to the Atlantic by way of the Paraguay River.

While the Tacna Arica territory was in dispute between Chile and Peru, there was a chance that Bolivia might regain a seaport on the Pacific, but in the settlement of this question in 1929 Bolivia was disregarded. She began, therefore, to consider seriously the means for obtaining an assured outlet to the Atlantic. She could reach the Paraguay River at Port Suarez in the Northern Chaco, but the stream there is barely navigable for boats of light draft, and it was to her interest to establish a valid claim to access to this river at a point much farther south. Apparently it was nationalist feeling, rather than economic necessity, that accounted originally for the desire of Bolivia for a direct route to the sea. Her exports are largely minerals, produced on the high plateau near the Pacific, and there are adequate railway facilities for transporting them to Chilean ports. With the discovery of oil in Argentina and Bolivia, however, not far from the Chaco border, the interest of Bolivia and Paraguay in pressing their claims to the Chaco received a new stimulus.

It is unnecessary to enter into the mass of claims and counter-claims which Bolivia and Paraguay had been putting forward for many decades. Attempts to effect a settlement seemed near success in 1879, 1887, and 1894, but for one reason or another the agreements then reached were never

ratified. In 1907 and again in 1913 both sides agreed to refrain from occupying the disputed territory beyond a certain line pending the settlement of their claims by arbitration. As arbitration was not undertaken and as neither side abided by the terms of the agreement, the dispute dragged on until it again reached a serious stage in 1927–28. At that time it was only through strong representations by the Latin American neighbors of the disputants that war was averted.[20]

Both Bolivia and Paraguay had been building forts or blockhouses at various points in the Chaco. In December, 1928, several encounters took place between the occupying forces, and tension became acute. At this time the International Conference of American States on Conciliation and Arbitration was sitting in Washington. It at once tendered its good offices and obtained the consent of the two countries to the appointment of a Commission of Inquiry and Conciliation, consisting of representatives of Cuba, Colombia, Mexico, Uruguay, and the United States, with General Frank McCoy as Chairman. The commission succeeded in effecting the resumption of diplomatic relations between Bolivia and Paraguay, but it did not remove the cause of the trouble, and the troops remained facing each other in the Chaco forts.

In September, 1929, this commission expired by limitation, but the five governments represented on it offered to continue their work of conciliation. The offer was accepted, and the representatives, designated as the Neutral Commission, labored earnestly for a settlement. In spite of friendly responses by the disputants to various proposals made by the commission, there were a number of clashes in the Chaco during the autumn, and in the spring of 1932 the commission again attempted to have the two governments come to an agreement.[21] On June 15, the quarrel came to a head when

[20] William Spence Robinson, *History of the Latin American Nations*, 374–375.

[21] Department of State Press Releases, August 8, October 24, 1932.

Bolivia captured one of the Chaco forts held by Paraguay, and both sides were soon engaged in active hostilities.

The renewal of the Chaco dispute was brought officially to the attention of the Secretary General of the League of Nations on July 21 by Bolivia in a letter complaining of Paraguayan aggression. These accusations brought a reply from Paraguay on July 27, and from then on a constant stream of charges and counter-charges flowed from the disputants to the League's Secretariat.[22] The League officials at all times coöperated whole-heartedly with the Neutral Commission.

On August 3, after the Bolivian government had refused the commission's appeal for an armistice, the entire neutral membership of the Pan-American Union, consisting of nineteen nations, resorted to an unprecedented procedure. In an identic note sent from Washington to Bolivia and Paraguay, they endorsed the principle of the Stimson doctrine, which had already been invoked in the dispute in Manchuria,[23] and declared that it applied also to the Americas. This pronouncement appeared in the final paragraph of the note, which read as follows:

> The American nations further declare that they will not recognize any territorial arrangement of this controversy which has not been obtained by peaceful means, nor the validity of the territorial acquisitions which may be obtained through occupation or conquest by force of arms.

The note urged Bolivia and Paraguay "to submit immediately the solution of this controversy to an arrangement by arbitration or such other peaceful means as may be acceptable to both." It also invited them to "make a solemn declaration to the effect that they will stop the movement of troops in the disputed territory." But the most important feature of the note was its formal application of the Stimson

[22] *Monthly Summary of the League of Nations*, August–September, 1932, 259–264.

[23] Cf. Chapters II and XI.

doctrine to the Western hemisphere. The pronouncement from Washington was not only a warning to Bolivia and Paraguay to refrain from aggression, but it assured all the other Latin American countries that international opinion was being mobilized against aggression by stronger powers. The possible effect of this on Latin American relations with the United States was evidently recognized in Washington.[24]

This joint action by the nineteen nations was for the time being ineffective. The Bolivian government replied that the declaration interpreted "with perfect exactness Bolivian thought" and was "inspired by the ideas underlying American public law, which does not admit occupation by usurpation as a title of ownership." It therefore received "with enthusiasm the new doctrine being initiated in America that force does not confer rights." But while thus adhering in form to the Pan-American declaration, Bolivia steadfastly refused the suggestion of the Neutral Commission for an armistice and insisted on holding the territory occupied in the Chaco "until a final solution of the controversy modifies the sovereignty of said positions,"[25] an attitude wholly inconsistent with her previous acceptance of the thesis that forceful possession does not constitute rightful occupation.

The Neutral Commission, with the moral support of the League, labored long and sincerely for a peaceful settlement of the dispute. At a meeting of the League Council on September 27, a committee consisting of the President of the Council, Mr. de Valera, Señor Matos of Guatemala, former President of the Council, and Señor de Madariaga, the Spanish representative, was appointed to follow the developments in the Chaco dispute, and at the same time the Council sent identic notes to the Bolivian and Paraguayan governments reminding them of their obligations under the League Cove-

[24] It was only five days after this Pan-American declaration that Secretary Stimson elaborated his doctrine of non-recognition in an address in New York before the Council on Foreign Relations. For text of the Pan-American note, see Appendix VI.

[25] Department of State Press Release, August 19, 1932.

nant and urging them to accept the recommendations of the Neutral Commission and put an immediate stop to the military acts and preparations.

On September 23 the Neutral Commission repeated its proposal for a truce, with a new suggestion that a delegation of neutral military officers should be sent to the Chaco to report on the measures taken for its observance. It was also proposed that if this delegation reported either of the disputants as a violator of the truce, the commission would declare that country an aggressor and suggest the severance of diplomatic relations with it by all the American governments. This plan did not find favor with the Argentine government, which on several previous occasions had manifested a lack of whole-hearted coöperation with the other American neutrals, and which now took the view that the dispatching of an international commission to the Chaco to fix responsibility and supervise the cessation of hostilities would be a coercive measure unauthorized by any existing treaty.[26]

The disputants, as the year neared its end, were still deaf to appeals from Geneva and Washington, and the Stimson doctrine was awaiting its final test in South America as well as in Manchuria. The conflict in the Chaco brought into South America an idea which had already become prevalent in the Far East, namely, that in spite of hostilities war does not exist unless it is formally recognized or declared by the parties to the conflict. Bolivia and Paraguay had each placed in the field forces variously estimated at figures ranging from 8,000 to 40,000, and unofficial reports indicated that several thousand had been killed, wounded, or captured. Both countries, in spite of the financial stringency, had made heavy purchases of armament.[27] Yet, officially, there was no war. What had happened had been only a chain of "untoward

[26] Department of State Press Release, November 18, 1932.

[27] Reports from Geneva indicated that a substantial amount of the money borrowed in Bolivia had been used for the purchase of munitions. The Bolivian debt thus incurred was in default. *New York Times*, September 16, 1932.

incidents." In this and various other ways the Chaco dispute offered interesting parallels to certain developments in Manchuria which will be described in a later chapter.

Events in the Latin American republics during 1931 and 1932 showed the futility of hoping for a surcease from political turmoil so long as those countries were gripped by the depression. Changes of government did not bring prosperity, and their failure precipitated still other changes, all of which merely aggravated the economic difficulties. The cure for the distress in Latin America was beyond the power of any single government. For what these countries needed was the reopening of foreign markets to their products, and world trade was languishing.

CHAPTER FIVE

CREDITOR AND DEBTOR NATIONS

1. *The Function of Foreign Lending*

THE decline in world trade, when examined more closely, shows a relatively greater fall in the exports of creditor nations than of debtors. For an explanation of this, it is necessary to consider the part played in international commerce by foreign lending.

Rightly managed, the process of foreign lending was of great value to both borrower and lender. It facilitated the orderly progress of new and undeveloped nations which lacked capital. It furnished an outlet for surplus funds of the creditor nations with a reasonable assumption of security, provided that the funds were invested in enterprises that paid their way. It created new markets for the lender, by increasing the ability of the borrower to buy his goods.

Among the nations of the world, there are only seven important creditors—that is, nations whose people owe less abroad, on both public and private account, than they are owed. These seven are Great Britain, France, Belgium, the Netherlands, Switzerland, Sweden, and the United States. Our own place in the list was achieved during the World War. In 1914, American investments abroad were estimated at 2,500 million dollars, but the United States was also a debtor to the amount of about 5,500 millions. At the end of the war our position had changed from a net debtor of 3,000 millions to a net creditor of 10,000 millions.

In the years after the war but before the depression, a steady flow of capital from these seven creditors to their

debtors was one means by which international balances were adjusted. The chief debtor nations were Germany (which had been a creditor before 1914), Canada, Australia, Japan, and Poland. The net indebtedness incurred by these and by other important nations between 1924 and 1928 is shown in the following table:

FLOW OF CAPITAL TO DEBTOR NATIONS[1]

(In millions of dollars)

	1924	1925	1926	1927	1928
Germany	421	857	151	1,072	1,007
Hungary	27		26	89	91
Poland	48	69	*72	82	124
Yugoslavia			8	23	27
Argentina			226	122	181
Australia	220	110	170	257	193
Canada	107	277	173	51	164
India	71	*69	178	120	67
Japan	226	74	128	50	80

* Outflow of capital.

In no year during this period did the credits advanced to these nine debtors amount to less than 1,000 million dollars, and in 1927 and 1928 they amounted to nearly 2,000 millions. The creditor nations furnished funds through the purchase of foreign securities, through the direct acquisition of foreign properties, and through payment of interest and dividends to foreign investors in their securities. In so far as the debtor nations repaid their creditors, they did so partly in commodities and services and partly in gold.

2. *American Balance of Payments*

The part played by foreign lending in the international accounts of the United States during the pre-depression years can best be understood by examining figures of the Department of Commerce. Since 1922 the Bureau of Foreign and

[1] These are estimates made by the League of Nations Economic Intelligence Service and are based on the difference between debits and credits (visible and invisible) in each country's balance sheet.

Domestic Commerce has prepared each year an estimated balance of international payments.[2] Some of its figures, particularly those concerned with the so-called invisible items of exchange, are necessarily estimates based on incomplete data. But on the whole the annual balances give a reliable picture of the commercial and financial relationships between the United States and the rest of the world.

If we study these balances for the seven years immediately before the depression (1922 to 1928 inclusive), we find three items consistently on the credit side of the ledger—that is, calling for payment by other nations to the United States. These items are the surplus of American exports over imports; the net amount due to Americans in interest on their foreign investments, after deducting the amount due to foreigners on their investments in this country; and payments due to the United States government on the war debts. On the debit side of the ledger we find five items: net expenditures by Americans traveling abroad, after deducting similar expenditures of foreigners traveling in the United States; immigrant remittances; gold imports; the net flow of capital to foreign countries, including both long-term and short-term loans, after deducting movements of capital in the opposite direction; and a group of small miscellaneous items, including shipping charges, insurance, charitable and missionary contributions, royalties, etc.

During the period from 1922 to 1928 the average payment on account of each of these eight items was as follows:

(In millions of dollars)

Credit Items

Export surplus	593
Interest	465
War debts	199
Total	1,257

[2] A detailed statement of these balances will be found in Appendix III (*f*).

Debit Items

Tourist expenditures	467
Immigrant remittances	227
Gold movement	41
Miscellaneous	50
Capital investment	472
Total	1,257

These figures show that in the seven years before the depression the rest of the world was called upon to pay us an average of 1,257 million dollars a year. How did it make payment? It sent us 41 millions in gold. It charged off 467 millions on account of tourist expenditures, 227 millions on account of immigrant remittances and 50 millions on account of miscellaneous items. This fell short of meeting the sum due to the United States by 472 million dollars. How was this gap bridged? It was bridged, as the table shows, by new American foreign loans in this amount.

It was solely the extension of foreign loans which enabled the United States to receive payment on its public and private investments abroad, in the years from 1922 to 1928, and at the same time to refuse payment in terms of goods.

3. *Weaknesses in Foreign Lending*

Because the practice of foreign lending bridged the gap between creditor and debtor nations, and because it enabled the United States to maintain an anomalous position as a great creditor exporting more goods than it purchased, it must not be suggested that foreign lending was in all cases wisely undertaken or that the system itself did not invite great risks. On the contrary, the manner in which loans were made in the post-war years exposed the system to danger at three points.

1. Before 1914, loans were advanced primarily for economic rather than governmental purposes. By far the greater

part went to railways and to industrial corporations.[3] After the war, and particularly toward the close of the decade 1921–30, government flotations in the United States were substantially greater than corporate issues, as is shown in the following table:

(In millions of dollars)

	Government Issues	Corporate Issues	Total Issues	Total, less Refunding
1921.....	554,376	138,037	692,413	623,308
1922.....	711,601	151,447	863,048	763,627
1923.....	377,180	120,417	497,597	420,597
1924.....	1,035,344	181,874	1,217,218	969,224
1925.....	939,670	376,496	1,316,166	1,076,466
1926.....	715,006	573,453	1,288,459	1,125,481
1927.....	1,074,512	502,902	1,577,414	1,336,760
1928.....	900,481	588,880	1,489,361	1,250,951
1929.....	262,319	443,449	705,768	671,231
1930.....	735,539	352,021	1,087,560	905,333

The large volume of public issues indicated that the international movement of capital was being directed in some measure toward other than industrial purposes. National, state, and municipal governments were borrowing not only to finance public utilities, some self-supporting and some not, but also to balance budgets, stabilize currencies, build strategic railways and ports, and even to erect fortifications and buy munitions.[4]

During 1927 and 1928 the appetite of the American public for foreign bonds was particularly keen, and certain investment houses took advantage of the situation to underwrite securities which, as subsequent events showed, should not have been issued. Thus, a number of Latin American governments were persuaded to borrow money which they did not need, on terms which, with the coming of adversity, they could not meet.

[3] Cf. Herbert Feis, *Europe: The World's Banker*, 27; *World Economic Survey, 1913–32*, 36.

[4] See above, p. 68, footnote 27.

This phase of the practice of foreign lending was described before the Senate Finance Committee at its hearings during the winter of 1931–32, pursuant to a resolution introduced by Mr. Johnson of California, authorizing an investigation of the sale of foreign securities in the United States.[5] Not only were debtor countries persuaded to overborrow, but American investors were persuaded to advance loans which were not used for productive purposes. So keen was the competition among the bankers for the privilege of floating new issues that in some instances large commissions were paid to promoters and to others supposed to be in a position to wield influence with the governments to which the bankers wished to lend their clients' money.[6] High interest rates were frequently paid in connection with such loans. These rates, instead of serving as a warning, actually proved to be an attraction to inexperienced investors.

2. Even where loans were made for clearly productive purposes, credit was often advanced without consideration of certain larger aspects of the problem of repayment. This weakness in post-war methods of international lending was strikingly illustrated in the case of Germany. Many of the American loans to public and private borrowers in that country were based on sound security. But when gold took flight from Germany and the government found it necessary to resort to exchange control, the problem of meeting charges due on any of these loans was immediately merged with the larger problem of meeting charges due on all of them. It became apparent that a sound policy of international lending required consideration not only of the security behind the individual loan, but also of the extent to which the people

[5] *Hearings* on Senate Resolution 19, parts I–IV. *Congressional Record*, Seventy-second Congress, First Session, 203.

[6] One such payment of $415,000 attracted especial attention because the investigation revealed that it was made to a son of President Leguia of Peru for alleged services in connection with the flotation of three loans to the Peruvian government amounting to 100 million dollars. See *Hearings* on Senate Resolution 19, Seventy-first Congress, First Session, 1286 ff.

of a debtor nation, individually and collectively, could afford to borrow.[7]

It is true that the American government had attempted during the post-war years to exercise an informal control over American lending which would view the problem as a whole. It had undertaken this experiment somewhat casually in 1921, as a corollary to its efforts to negotiate agreements for repayment of the war debts. On several occasions, in 1924 and 1926, it had privately warned American bankers that a time might come when a scarcity of foreign exchange would make it difficult for Germany to maintain service on debts due to creditors in this country.[8] But the policy on which the government thus embarked was indifferently pursued, lacked authority of Congress, and failed to attain its objective.

3. A third weakness in the post-war system of lending was the great increase in the volume of short-term credits. Before 1914, short-term international borrowing was employed chiefly as a device to meet a temporary deficit in a trade balance, due to a seasonal expansion of imports or to some other short-lived influence. To borrow on short-term was more economical than to ship gold which might be reshipped a few weeks later, when the flow of trade was altered. But in the post-war years short-term money was often called upon to serve long-term or even capital purposes. The countries in the war area were short of liquid funds at the close of the war, and their limited stock was further depleted by inflation. If capital was to be found at all, it had to be obtained on terms made by the lender. Even for some time after the formal restoration of currency stability, investors hesitated to commit themselves for long terms. But the supply of short-term money in the hands of creditor countries was exceptionally large, and the high rates paid in the capi-

[7] In fairness to Germany it should be said that in spite of the great difficulties involved during 1932, interest and sinking-fund charges on the long-dated debt were always met.

[8] Cf. Appendix II (*c*).

tal-poor countries attracted it at first tentatively, and then in great volume.

Long-term lending followed in due time. To some extent and in certain years, as for instance in Germany in 1926, long-term lending was frequently used to refund short debt already incurred. Subsequently short-term and long-term lending went on simultaneously, partly because short-term loans carried lower rates of interest. The vast volume of short-term debt thus built up was recognized by central banks in every nation as an element of danger, since any incident shaking confidence on the part of the lenders would inevitably put a stop to long-term loans and result in wholesale withdrawals of short-term funds.

4. *The Drying Up of Foreign Loans*

The post-war system of international lending thus contained elements of risk at three points. There was an increasing tendency to lend to governments, rather than to private borrowers, and to employ the proceeds of such loans for political rather than productive purposes. There was a tendency to consider the security behind individual loans without considering the problem of repayment as a whole. There was a tendency to advance loans on short-term, a practice subject to great risk for the borrowers in case of sudden loss of confidence by the lender. We have now to note the contraction of the stream of international credit, partly in consequence of these weaknesses in post-war methods of extending loans and partly in consequence of new influences which made their appearance after 1927.

After reaching a high figure in 1927, the volume of foreign lending showed a slight decline in 1928, because of a congested bond market and high money rates. A new boom in stock prices at the same time shifted the interest of investors into more speculative undertakings. In 1929 a further decline took place in foreign offerings both in New York and in London. During the first half of this year the boom in

stocks was still having its effect; in the second half came the crash in the stock markets which destroyed confidence and arrested the flotation of new securities.

A temporary improvement in business and in the security markets during the first half of 1930 was accompanied by a slight increase in foreign lending. Then came a drastic decline in 1931, followed by an even greater shrinkage in 1932. During the first half of the latter year the volume of new issues offered in London was reduced to a mere trickle, while in New York the stream of long-term credit dried up entirely. Not a single foreign bond issue was floated in the United States during this six-month period. The following table tells the story:

NEW FOREIGN CAPITAL ISSUES

	New York[9] (In millions of dollars)	London[10] (In millions of pounds)
1927.....	1,336.7	150.8
1928.....	1,251.0	150.1
1929.....	671.2	107.3
1930.....	905.3	112.8
1931.....	228.8	49.6
1932[11].....	0	20.4

This abrupt decline in the flow of international credit reflected the progressive stagnation of business throughout the world, accompanied by the destruction of investors' confidence, a persistent decline in prices, and a general curtailment of lending power in all creditor countries.

5. *The Debtors' Defense*

A. *Financial Measures*

The stoppage of foreign loans, in conjunction with these other destructive forces, compelled debtor nations to act in

[9] Department of Commerce estimates.
[10] Bank of England estimates.
[11] First six months.

defense of their currencies and to adjust their balances of international payments by other means, now that new credits were denied them.

During the last four months of 1931 many countries found it necessary to set up rigid restrictions on foreign exchange. Germany resorted to exchange control as early as July 15, 1931, in order to check the flight from the mark and to allay the financial panic which then gripped that country. The suspension of the gold standard the following September by Great Britain resulted in a number of restrictions on exchange dealings by the British government, but these were revoked in March, 1932, when it became apparent that they were no longer needed. A large number of other countries, however, found such restrictions desirable. In 1932 this method of control was in use in Austria, Bulgaria, Czechoslovakia, Denmark, Estonia, Germany, Greece, Hungary, Yugoslavia, Latvia, Norway, Rumania, Argentina, Brazil, Chile, Colombia, and India.[12] Control was usually exercised by the central bank in coöperation with some department of the government.

In certain cases debtor nations found it necessary to go beyond restrictions of exchange and to declare moratoria on the transfer of their currency. In December, 1931, Hungary resorted to an emergency measure whose immediate effect, so far as holders of her external obligations were concerned, was equivalent to a default. For the purpose of conserving the country's holdings of foreign exchange and safeguarding the cover of banknotes, the government ordered the temporary suspension of the transfer of funds required for service on certain classes of obligations. In April, 1932, Greece and Bulgaria adopted similar measures, after appealing unsuccessfully to the League of Nations for financial assistance.[13] Austria followed with a partial transfer moratorium on June 23.[14]

[12] Finland resorted to exchange restrictions in 1931, but abandoned them at the end of that year. Cf. Appendix III (*a*).

[13] League of Nations Publication, Official No. C.328.M.199.1932.II.A.

[14] *New York Times*, June 24, 1932.

These unilateral arrangements by four debtor nations differed in detail, but their general purpose was the same.[15] Greece suspended amortization payments entirely, but continued to make interest payments, depositing funds for this purpose in a special account at the central bank until such time as an improvement in the exchange situation made their transfer practicable. Bulgaria suspended the transfer of only half of her interest and amortization charges.

These arrangements must be distinguished from outright defaults, as in some of the Latin American countries, where payments were completely discontinued because governments lacked funds. Between April 1 and December 31, 1931, there were defaults by six South American countries—Bolivia, Brazil, Chile, Colombia, Peru, and Uruguay—on the bonds either of the central governments or of their political subdivisions, and in some cases on the bonds of both. The total amount of the American investment in these countries in default was over 800 million dollars.[16] This sum represented practically one-half of the Latin American obligations held in the United States. Bolivia, Chile, and Peru had suspended all service on their foreign debts, and the central governments of Colombia and Uruguay had suspended payments on their sinking funds. The state and municipal governments of these two countries were also unable to maintain foreign debt payments. The central government of Brazil was meeting its interest payments by issuing new obligations. The state of São Paulo was making payments partly in cash and partly with notes, and the other Brazilian states and their political subdivisions were in default.

B. *Commercial Measures*

Another device to which hard-pressed debtor nations resorted in increasing measure during 1931 and 1932 was a

[15] The Greek moratorium applied only to government obligations; that of Hungary applied also to long-term private debts.

[16] The amount of Latin American debt in default was approximately 1,200 million dollars, the American share being about two-thirds of the total.

deliberate curtailment of commodity imports. We have noted how large a part foreign lending played before 1929 in financing international trade. With the cessation of such lending, debtor nations had no recourse save to curtail purchases abroad in order to reduce demands upon their currency.

While a protective tariff was in itself an effective means of restricting trade, other devices were now invented or perfected to reinforce such high tariffs.

1. *Quotas.*—Under this method of control, governments restricted either by volume or by value the importation of specified commodities. France, a creditor nation, led the way in 1931 in the adoption of the quota system. Following the abandonment of the gold standard by a number of European countries, the French government imposed quota restrictions on lumber and on many articles of food. In 1932 these restrictions were extended to include radio equipment, certain electrical devices, household enamel ware, various kinds of leather, hardware, furniture, machine tools, steel sheets, textiles, paper, and photographic films.[17] Spain, Poland, Latvia, and Turkey were among the debtor countries following this French example. In addition, a number of other countries, notably Austria, Czechoslovakia, Germany, and Greece, agreed by treaty with their neighbors to admit specified quotas of each other's products, in some instances at reduced rates.[18]

Closely allied to this means of controlling trade was the practice of requiring a fixed percentage of a domestic product to be combined with an imported product. Certain coun-

[17] On March 30 a resolution adopted by the American Chamber of Commerce in Paris urged our government to take action to obtain relief for American exporters from losses occasioned by French quotas. On August 4 Ambassador Edge presented a memorandum on this question to the French Ministry of Foreign Affairs. Informal discussions of the matter during August and September had led to no agreement by the time Mr. Edge returned to this country on a visit in the fall. *New York Times,* March 31, August 5, September 22, 1932.

[18] Henry Chalmers, "Current Trends in Foreign Tariffs and Commercial Policy; Review of 1931"; United States Department of Commerce, *Trade Information Bulletin* No. 790.

tries specified that imported gasoline must be mixed with domestic alcohol. But wheat was the favorite target for regulations of this type. A common requirement in many European countries in 1932 was the use of a certain percentage of domestic wheat with foreign wheat in the milling of flour, the proportion usually fluctuating according to the nearness of the harvest.

2. *Import Licenses.*—Austria, Japan, and a number of other debtor nations required their nationals to obtain licenses in order to import certain specified commodities. In most countries these restrictions were applied only to a small number of commodities, but Czechoslovakia made use of the plan on an extensive scale.

3. *Import Surtaxes.*—As a means of offsetting depreciated currencies, several debtor nations imposed a special surtax on imports. The Union of South Africa levied such a duty on all imports from countries whose currencies had depreciated more than 10 per cent.[19] In Germany the establishment of compensatory duties on imports from countries with depreciated exchanges was authorized by presidential decree in January, 1932. Canada also imposed such surtaxes.

4. *Administrative Restrictions.*—Finally, technical requirements, such as those relating to marking, branding, packing, and certificates of origin, continued to multiply. As they multiplied, they added to the cost and difficulty of trading with foreign nations. Meantime, the number of debtor nations in which administrative officials were authorized to revise customs duties steadily increased. As a rule, this delegated authority was closely circumscribed. But in some countries the executive authority was empowered to limit and even to prohibit imports, according to the dictates of its judgment.[20]

[19] *Commerce Reports,* February 8, 1932, 330.

[20] The legal provisions in effect in 1932 for the administrative regulation of the tariff in fifty foreign countries have been compiled by the United States Tariff Commission in its special publication entitled *Regulation of Tariffs in Foreign Countries by Administrative Action.*

6. *Comparative Trade Losses*

As we have said, the purpose of all these restrictive measures on the part of debtor nations was to enable them to reduce demands upon their currencies and to adjust their balances of international payments without the aid of foreign loans. The result of their efforts is shown in two tables prepared by the National Industrial Conference Board.[21]

The first table gives the exports and imports of fifteen important debtor nations in 1930 and in 1931, with the percentages of change in each instance:

VALUE OF EXPORTS AND IMPORTS OF FIFTEEN DEBTOR NATIONS IN 1930 AND 1931

(In millions of dollars)

	Exports			Imports		
	1930	1931	Per Cent Change	1930	1931	Per Cent Change
Germany	2,867	2,286	−20.2	2,476	1,602	−35.3
Italy	638	528	−17.3	912	611	−33.0
Norway	183	117	−36.1	285	215	−24.6
Denmark	433	333	−23.1	463	367	−20.7
Czechoslovakia	518	389	−24.9	466	349	−25.1
Poland	273	210	−23.1	252	164	−34.9
Yugoslavia	120	85	−29.2	123	85	−30.9
Austria	386	310	−19.7	265	188	−29.1
Canada	886	605	−31.7	1,009	628	−37.7
Argentina	513	427	−16.8	617	345	−44.1
Brazil	320	225	−29.7	261	130	−50.2
Chile	161	113	−29.8	170	86	−49.4
Colombia	109	95	−12.8	61	40	−34.4
Australia	431	328	−23.9	519	187	−64.0
Japan	726	560	−22.9	764	604	−20.9
Total	8,564	6,611	−22.8	8,643	5,601	−35.2

It will be seen that both exports and imports declined in the case of all fifteen of these nations. But it will also be noted that, except in the case of Norway, Denmark, and

[21] *A Picture of World Economic Conditions at the Beginning of 1932*, 3.

Japan, the decline of exports was proportionately smaller than that of imports. The differences in some instances are particularly striking. Germany's exports declined by only 20.2 per cent, but her imports fell off by 35.3 per cent. Australia's exports were cut 23.9 per cent, but her imports were reduced by 64 per cent. For the group of fifteen debtor nations as a whole, the loss of exports amounted to 22.8 per cent and the loss of imports to 35.2 per cent.

Similar figures for the seven creditor nations show the following changes:

VALUE OF EXPORTS AND IMPORTS OF SEVEN CREDITOR NATIONS IN 1930 AND 1931

(In millions of dollars)

	Exports			Imports		
	1930	1931	Per Cent Change	1930	1931	Per Cent Change
United Kingdom	2,777	1,894	−31.8	5,081	4,196	−17.4
France	1,679	1,193	−29.0	2,058	1,654	−19.6
Belgium	730	647	−11.4	866	668	−22.9
Netherlands	691	527	−23.7	972	761	−21.7
Sweden	416	285	−31.5	446	364	−18.4
Switzerland	342	262	−23.4	516	437	−15.3
United States	3,843	2,424	−36.9	3,061	2,090	−31.7
Total	10,478	7,232	−31.0	13,000	10,170	−21.8

It thus appears that the experience of the creditor nations reverses that of the debtors. With the single exception of Belgium, all the creditor nations show a larger proportionate loss of exports than of imports. While the fifteen debtors were losing 22.8 per cent of their export trade, but managing to reduce their imports by 35.2 per cent, the seven creditors were losing 31 per cent of their exports and cutting their imports by only 21.8 per cent.

In seeking to protect its exchange position, each debtor nation aimed at maximum exports and minimum imports. From a purely national point of view such a policy was

necessary, but obviously it could not have the desired result if pursued by all the debtor nations simultaneously. For then the combined activities of all neutralized the individual effort of each, and the last state of the debtor countries was worse than the first. The problems of none were solved, and the difficulties of many were increased.

CHAPTER SIX

RISING TARIFF BARRIERS

1. *The Creditors' Defense*

ON FINDING themselves under pressure from debtors seeking to curtail their purchases abroad and simultaneously to stimulate their exports, the creditor nations responded with new tariffs of their own. In a previous chapter[1] we have noted the reluctance of the American Congress to reduce tariff barriers, despite the creditor position of the United States, and its willingness to impose new tariffs on coal, copper, petroleum products, and lumber. In another chapter we have also noted the expansion by France of her exceedingly effective quota system.[2] On the side of the creditors, however, the most striking development of the early months of 1932 was the adoption of a protective tariff by Great Britain. In this decision of the British government the United States had a large interest. For in the decade after 1921 more American goods were sold to the United Kingdom than were sold in any other market, more than were sold in all of Asia and more than twice the amount sold in South America.

The reversal of the historic policy of free trade in England was not so sudden as it had seemed to be when the newspapers reported late in 1931 that the new Coalition Government was headed in the direction of protective tariffs. As early as 1915 the so-called McKenna duties had been adopted as a war measure, in order to discourage the purchase of foreign luxuries and thereby to protect sterling

[1] Cf. Chapter II.
[2] Cf. Chapter V.

exchange, which had been weakened by the purchase of war materials. Despite their temporary repeal in 1924 by the first Labor Government, these duties still remained in force. Also still in force was the Safeguarding of Industries Act of 1921, another peace-time adaptation of a war-time measure originally designed to protect "unstable key industries" against dumping of goods by foreign nations. In 1926 the duties levied under this act had been extended for ten years, and new products had been added to the list of those on which tariffs were imposed.

Nevertheless, the decision in favor of a frankly protective policy late in 1931 seemed to come with stunning force. In the general election of October the tariff had played an unimportant part, though many of the Conservative candidates for Parliament had championed protection. To support traditional arguments for such a policy, they could now point to the recent abandonment of the gold standard and the risk that an adverse trade balance would cause further weakness in the pound. Moreover, business stagnation in England had reached a point where any change of policy seemed worth a trial.

Despite the reluctance of Mr. MacDonald and the opposition of four other members of the Cabinet, the new Coalition Government accordingly prepared three tariff bills at the end of 1931. Two of these were emergency measures, the Abnormal Importations Act of November, 1931, and the Horticultural Products Act of December. The third act, a general tariff law, required more time for its preparation and did not go into effect until March 1, 1932.

Of the two emergency measures, the first authorized the Board of Trade to impose duties up to 100 per cent *ad valorem* on commodities whose importation had "abnormally" increased. The duration of these duties was limited to six months. Their purpose was to prevent other nations from flooding British markets with their goods, in advance of a general tariff. Three orders were issued by the Board

of Trade, covering forty-nine classes of commodities, the imports of which in 1929 and 1930 had an average value of £60,000,000. Empire products were exempt from these duties.[3]

Since the Abnormal Importations Act did not cover food products, Parliament was urged to extend the new duties at least to fruits, vegetables, and flowers imported out of season. It was argued that such imports were luxuries and that their restriction was desirable in order to strengthen British exchange as well as to encourage domestic production. This action was taken in the Horticultural Products Act. The Minister of Agriculture was authorized to impose emergency duties on fruits, vegetables, and flowers which competed with English products, but such duties were to be levied only during the season when domestic products were not ready for the market. Empire products were excluded from these duties also.

Both emergency measures were put into effect at about the time the Seventy-second Congress was assembling in Washington for its first session.

2. *The British Tariff of 1932*

The Coalition Government claimed that it had received a "doctor's mandate" at the last election. It had asked for a free hand to administer such remedies for Great Britain's troubles as it saw fit to prescribe, and believed that the decision of the electorate had given it this authority. A general tariff to take the place of temporary defensive measures was one of the remedies it now proposed. In order to prevent the disruption of the Cabinet on this issue,[4] free-trade members

[3] Cf. *British Tariff Policy, 1932*. Prepared for the Fifth Conference of Institutions for the Scientific Study of Foreign Relations by members of a joint-study group of the Royal Institute of International Affairs and the London School of Economics and Political Science.

[4] Philip Snowden, now raised to the peerage, and a member of the MacDonald Cabinet as Lord Privy Seal, announced his purpose to resign and to join the opposition if a protective tariff was adopted as a policy of the Government.

were granted the unusual privilege of opposing the Government's own tariff bill in Parliament.

The new bill for a general tariff was offered in the House by Neville Chamberlain, Chancellor of the Exchequer, on February 4, 1932. It provided for duties of 10 per cent on all imports not already dutiable or on the free list. Products of the British Empire were to be exempt from these new duties until November 15, 1932, and the door was thus left open for bargaining at the coming Imperial Economic Conference at Ottawa. Although the bill encountered opposition from the dwindling ranks of free-traders, it passed the House of Commons on February 25 by a vote of 442 to 62. The House of Lords promptly concurred, and the measure became a law on March 1.

The flat rate of 10 per cent established by this statute was merely the foundation stone of the new protective system. The structure was to be completed by an Import Duties Advisory Committee, patterned somewhat after the Tariff Commission of the United States. Its members were to be appointed by the Treasury.[5] They were authorized to make investigations and to submit to the Lords of the Treasury recommendations for changes in existing duties. If they approved, the Lords of the Treasury were in turn empowered to issue orders making these changes effective. Under the law these orders were subject to confirmation or rejection by Parliament.

Since the duties imposed in November of the previous year by the Abnormal Importations Act would expire by limitation on May 19, the committee at once gave its attention to the preparation of a new schedule of rates. This schedule went into effect on April 26. Tariffs on those manu-

[5] The first appointees to the committee were Sir George May, Chairman, Sir Sidney Chapman, and Sir Allan Powell. Sir George May was also Chairman of the committee which produced the famous May Report in 1931. This report contributed to the government crisis in August of that year and directly led to the collapse of the Labor Government. Cf. *The United States in World Affairs, 1931*, 191–192.

factured goods for which the law authorized additional duties were fixed at an average rate of about 20 per cent, the lowest rate being 15 per cent and the highest 33 1/3 per cent. These readjustments were generally regarded as preliminary to later changes. For the new law prepared the way for bargaining with other nations by authorizing reductions as well as increases in prevailing duties. On the recommendation of the Board of Trade, the Treasury was empowered to issue orders stipulating that goods from a specific country were not subject to the rates generally imposed, or that they were dutiable at less than the full rate.

It was apparent that in abandoning free trade, England intended not only to play the game of protection with the highly protected nations, but to employ her great commercial power in an attempt to set up a new system of bargaining tariffs for nations which still hoped to dispose of their surplus goods in British markets.

3. *The Ottawa Conference*

In the development of its new tariff policy, the British government hoped first of all to negotiate a series of trade agreements with other members of the Empire before the period for the free admission of their goods into the United Kingdom expired on November 15, 1932. It expected to accomplish this at the Imperial Economic Conference which had been called to meet at Ottawa. This conference convened on July 21, with delegates in attendance from Great Britain, the Irish Free State,[6] Australia, New Zealand, Canada, Newfoundland, India, South Africa, and Southern Rhodesia.

The British delegates hoped to achieve a substantial reduction in the tariffs on Empire goods and thereby to open the way for the easing of trade restrictions elsewhere. Mr. Stanley Baldwin, their leader, paid at least lip service to Lord

[6] Because of the tariff war then waging between Great Britain and the Irish Free State as a result of the dispute over land annuities, the Irish delegation confined their negotiations for trade agreements to certain of the Dominions.

Beaverbrook's scheme of Empire free trade when he stated in the House of Commons on June 16 that the objective of the Government would be "the nearest practicable approach to reciprocal free trade within the Empire." But he went further and said that some of the Dominions would be asked "to consider if they have not gone a little too fast in their industrial development both for their own good and for that of the Empire as a whole."

Mr. Baldwin and his colleagues wished especially to persuade the Dominions to modify the defensive trade measures to which as debtor countries they had seen fit to resort during the depression. Most of them during the post-war decade had applied protective duties on an ascending scale.[7] It was now proposed that Great Britain should give them an assured market for their natural products, in return for which they were to relax their efforts at self-containment and provide a better market for British manufactures. In this way there would develop a kind of intra-imperial division of labor, with each region specializing in what it could produce to the best advantage and exchanging its products for others which could be produced more advantageously elsewhere.

When the British delegates reached Ottawa, they soon discovered that the representatives of the protectionist Dominions entertained different ideas from their own concerning their respective needs. Yet the opening addresses revealed at least a common aim among them all to seek tariff preferences for their chief products without resorting to measures which would restrict world trade. Thus, Mr. Richard B. Bennett, the Canadian Prime Minister, stated that the hope of the conference was "greater markets within the Empire," but that "greater Empire markets mean as well greater world markets."[8]

Mr. Baldwin was more explicit. There were two ways, he

[7] Newfoundland was the conspicuous exception, as it had no industries demanding protection.

[8] *Report of the Conference* (Canadian official edition), 69.

said, by which increased preferences could be given—"either by lowering barriers among ourselves or by raising them against others. . . . It seems to us that we should endeavor to follow the first rather than the second course. For however great our resources, we cannot isolate ourselves from the world."[9]

When negotiations began, many divergences quickly appeared in the views of the delegations as to the methods of achieving their common aims. The British pointed out that between 50 and 60 per cent of their exports went to foreign countries, and that they could not make concessions which would offend such good customers as the United States, Argentina, France, and Germany. Yet the British were then seeking better markets for their coal and manufactures through Dominion tariff preferences which would divert trade from some of these good customers.

The Dominions, meantime, were vociferously demanding favors from Great Britain, but were reticent concerning what they might give in return. For they had become more and more industrialized under the protectionist policies of the post-war decade and were naturally unwilling to subject their tariff-shielded industries to the unfettered competition of British imports.

The negotiations between Canada and Great Britain took first place in the proceedings of the conference, inasmuch as they involved the largest amount of Empire trade and would have the greatest effect on world commerce. Premier Bennett, who was both the originator and the Chairman of the conference, was an ardent protectionist. He had come into office in 1930 with a high-tariff program when the resentment of Canadians against the new American tariff was keen. Moreover, the Canadian delegates, being on home ground, were subjected to constant local pressure from the high-tariff advocates in the Dominion.

Ottawa swarmed with lobbyists bent on seeing that no

[9] *Report of the Conference* (Canadian official edition), 74.

Canadian interest should lose any of its existing tariff protection through an imperial agreement. The textile manufacturers insisted that the home market be reserved for themselves. The lumber industry insisted that England should exclude Russian lumber, which was obtainable at very low prices, and that greater preference should be given to their product. The Canadians also were disposed to follow what Mr. Baldwin had called the less desirable course and to give tariff preferences by raising their duties against foreign goods instead of lowering them in favor of Empire goods. Obviously, if the existing duties on Empire products were already highly restrictive, the proposed preference would be an illusion. The British were unwilling to follow the example of Canada in laying an embargo on Russian products, because this might close the Russian market to their own goods and possibly lead to the repudiation of debts owed by the Soviet government to British subjects.

Because of the wide divergence of interests, an agreement on a definite plan of imperial economic unity was impossible. Although the negotiations were secret, there was ample evidence that they were not proceeding smoothly, and the disputants at times carried on their quarrels indirectly through the newspapers. Because of the difficulty of reaching agreements, the conference was prolonged for two days beyond the time originally fixed for adjournment, and the nature and extent of its achievements were in doubt until the final session on August 20.

In the meantime certain matters of less importance—notably the proposals for an Empire currency and an Empire bank, the silver question, and the requirement of a uniform minimum percentage of "Empire content"[10]—were disposed of by postponement or honorable burial at the hands of some committee. The "reflation" of commodity prices, while generally desired as a means of economic recovery, was also

[10] The amount of Empire material and labor required in goods produced in part outside the Empire to qualify them for tariff preference.

recognized as not attainable by the Empire alone and was deferred for consideration at the World Economic Conference, later scheduled to meet in 1933.

In spite of the clash of interests which was in evidence to the very end and seemed at one time about to disrupt the conference and even to weaken the structure of the Empire itself, the negotiations were finally productive beyond expectation. Twelve trade agreements emerged from the conference. Seven of these were between Great Britain and the Dominions,[11] three were between Canada and other Dominions,[12] and two were between South Africa and other Dominions.[13]

The conference formulated a single general statement of principle regarding the agreements, namely:

> That by the lowering or removal of barriers among themselves provided for in those agreements the flow of trade between the various countries of the Empire will be facilitated, and that by the consequent increase of purchasing power of their peoples the trade of the world will also be stimulated and increased.[14]

Great Britain agreed that the Dominion goods then provisionally on the free list until November 15 should continue to enjoy free entry for a minimum period of five years. This was consistent with Mr. Baldwin's pronouncement at the opening of the conference that no rates should be increased, but in pursuing its bargaining the British delegation found it necessary to depart from this policy in some important particulars.

1. Certain foreign articles formerly on the free list, notably wheat, linseed, and copper, were subjected to a duty in order to give preference to Dominion products.

2. The duties on certain other foreign commodities, for

[11] Australia, Canada, India, Newfoundland, New Zealand, South Africa, and Southern Rhodesia. India and Southern Rhodesia did not have full Dominion status, but this distinction was not made at the conference, and for convenience they are included here with the Dominions proper.

[12] The Irish Free State, South Africa, and Southern Rhodesia.

[13] The Irish Free State and New Zealand.

[14] *Report of the Conference* (Canadian official edition), 20–21.

example, fruits and dairy products, were increased so as to give preference to the Dominions.

3. The quota system was applied to meats so as to increase purchases from the Dominions.

The continuance of the free list, the imposition of fresh duties on certain foreign goods, and the meat quota constitute the body of Great Britain's concessions to the rest of the Empire. In return, the Dominions made certain concessions to Great Britain. Canada agreed to revise some 215 rates of its existing tariff, reducing the duties on British goods in 132 cases and giving the British greater preference in 83 cases by raising the rates on foreign goods. Canada agreed further: (1) to adjust rates on British goods so as to equalize production costs between the two countries; (2) to set up a Tariff Board to revise the rates in accordance with the foregoing principle; (3) to increase duties only after an inquiry by this board and to give British producers a hearing at this inquiry; (4) to protect against British imports only "those industries which are reasonably assured of sound opportunities of success"; (5) to abolish, as soon as the finances of Canada allowed, the surcharges on British imports, imposed to offset the depreciation of sterling.

The agreements of Great Britain with Australia and New Zealand embodied concessions to British goods very similar to those made by Canada. Agreements with other members of the Empire were simpler and involved mainly an increase in tariff preferences both numerically and in degree.

The extension of imperial preference introduced no new principle. Canada had adopted such a system at the beginning of the century, and it had been generally employed within the Empire since the imposition of the McKenna duties in 1915. Great Britain, however, had previously granted preference only on dutiable goods, and the Ottawa agreements extended it to goods hitherto on the free list. One result was a British tariff on foods, a radical departure from a long-established policy. Another innovation was the

provision in some of the treaties between Great Britain and the Dominions that the British government could not change certain rates without the consent of the Dominion governments. Great Britain thus lost some part of her fiscal autonomy,[15] but at the same time a new link was established between the members of the Empire.

While the Canadians did not succeed in obtaining a British embargo on Russian timber, they succeeded in embodying in their treaty with Great Britain a stipulation that if the preferences were likely to be frustrated "through state action on the part of any foreign country," each government would undertake "to prohibit the entry from such foreign country directly or indirectly of such commodities into its country for such time as may be necessary to make effective and maintain the preferences hereby granted by it."[16]

The effects of the treaties on world trade cannot be gauged with statistical accuracy. Even after they have been in operation for a considerable period, the results can be only roughly estimated, inasmuch as a tariff is but one of the many influences affecting the flow of international commerce, and its relative importance is constantly changing. It was the consensus of trade experts that producers in the United States would incur some loss of trade in Great Britain and Canada, hitherto their best foreign markets.[17] According to the London *Economist*, 83 per cent of British imports were admitted free of duty in 1930, whereas under the new agreements at Ottawa the proportion would be only 25 per cent. Of imports from the United States, 70 per cent were free of duty in 1930, as against an estimated 20 per cent after the Ottawa agreements became effective.[18] Since most of the

[15] It was pointed out at the time that this clause in the agreements might tie the hands of the British in negotiating with other countries and possibly handicap them later at the World Economic Conference.

[16] *Imperial Economic Conference at Ottawa*, Cmd. 4174, 22–23.

[17] The United States Department of Commerce estimated that about 180 million dollars of exports would be affected in some measure by the Ottawa agreements.

[18] *Economist*, Ottawa Supplement, October 22, 1932.

British duties were relatively low, the new tariff walls were not so formidable as these figures themselves might seem to indicate. Even after the changes made at Ottawa, it was estimated that only 7.7 per cent of non-Empire imports into Great Britain would be subject to duties in excess of 20 per cent.[19]

It was impossible at the end of 1932 to strike a balance between the advantages and disadvantages which might result from the Ottawa conference. Great Britain seemed destined to profit in some degree by Dominion trade diverted from foreign countries. On the other hand, the duties she imposed on raw materials and foodstuffs would indicate higher production costs and a handicap to the expansion of her export trade outside the Empire. The Dominions, likewise, in gaining assured preferential treatment over a term of years, at the same time incurred the risk of losing some part of the foreign markets for their natural products by raising their walls against foreign goods. The adoption of the quota system by Great Britain and the acceptance by the chief members of the Empire of the high-protectionist principle of "compensatory tariffs" or "equalizing production costs," seemed to point to higher trade barriers rather than the freer flow of world commerce which the various delegations had announced at the opening of the conference as their ultimate goal.

4. *The American Tariff and Canada*

Canada had played the leading part in bringing about the Ottawa conference. For this there was a reason. The Dominion was a debtor on international account, and as in the case of many other countries the problem of meeting her obligations was made more difficult by the sharp decline in commodity prices, by the depreciation in the value of Canadian exchange, by the lack of adequate gold reserves, and by

[19] *Economist*, Ottawa Supplement, October 22, 1932.

tariff barriers which severely restricted payment in terms of goods.

Without sufficient gold to adjust her international balances, it became more necessary than ever for Canada to pay her debts in goods. But the sale of Canadian goods in American markets was effectively discouraged by American tariffs. The Hawley-Smoot Act of 1930 imposed very high duties on timber, cattle, and leather, all important items among Canadian exports to the United States, as well as on a multitude of smaller items, such as halibut and potatoes from the maritime Provinces, and dairy products from Quebec. In an effort still further to discourage imports from Canada, Congress enacted new tariffs on copper and lumber in the revenue act of 1932.[20]

To many Canadians it seemed that the United States was pursuing an inconsistent policy when it advanced large loans and made direct investments in Canada and at the same time placed obstacles in the way of payment on these investments.

A. *American Branch Factories*

One phase of American investment in Canada attracted special attention in 1932 and raised questions directly concerned with the tariff policy of both countries. This was the capital invested by Americans in branch factories, subsidiary companies, and assembling plants in Canada. The United States Department of Commerce estimated the amount so invested in 1929 at 540 million dollars,[21] distributed as shown in the following table:

[20] Cf. Chapter II.

[21] *American Branch Factories Abroad*, 31. Senate Document 258, Seventy-first Congress, Third Session. An estimate by the Dominion Bureau of Statistics, published in 1931, gave the number of Canadian branch plants and affiliated establishments of United States ownership as 1,071, with an invested capital of 1,190 millions. This includes plants not wholly American-owned and also paper and pulp mills, which were omitted from the American estimate.

BRANCH FACTORIES IN CANADA

(Values in millions of dollars)

	Number	Value
Automotive products	43	69.3
Chemicals	113	44.8
Electrical equipment	22	55.9
Foodstuffs	51	53.3
Machinery	62	68.2
Iron and steel products	13	30.6
Other metal products	78	57.9
Lumber and products	37	51.1
Rubber products	8	47.5
Textiles	39	19.2
Miscellaneous	58	42.8
Total	524	540.6

The motives which persuaded American interests to establish branches and subsidiaries in Canada were summed up by the Department of Commerce in a report submitted to Congress on January 22, 1931.[22] Among these motives were listed a desire in certain cases to take advantage of lower costs of transportation, a desire in other cases to operate successfully under the "working" clauses of Canadian patent laws, and a desire to appeal to the national sentiment of the Canadian purchaser by offering a product "made in Canada." But the most powerful of all motives was the desire to transact business behind the Canadian tariff wall.

On this point, in view of what happened at Ottawa in 1932, the opinion of the Department of Commerce is especially significant.

> In the case of Canada the tariff factor is based not only on the tariff policy of Canada itself, but also on the policies of the mother country and such parts of the British Empire as grant preferential treatment to Canadian products. Thus the migration of the American industries to Canada has been motivated to a very large degree by the desire to facilitate the entry of American products into the markets of a good share of the British Empire, taking into considera-

[22] *American Branch Factories Abroad*, 7–17.

tion not only the actual but also the future preferential tariff relations between the various parts of the Empire.

The migration of American industry to Canada brought from the American Federation of Labor a protest against loss of employment in factories on our own side of the border. It armed the Democratic candidate for the Presidency in the campaign of 1932 with an additional argument for revision of existing tariffs. It initiated a movement among Canadian manufacturers to restrict the advantages enjoyed by American branch factories in Empire trade.

With this end in view, the Canadian delegation attending the Imperial Economic Conference at Ottawa proposed the adoption of a uniform formula of "Empire content." The United Kingdom and the Irish Free State generally required that 25 per cent of the value of any manufactured article should represent Empire material and Empire labor if the article was to enjoy preferential treatment in Empire trade; Canada and New Zealand required 50 per cent, and Australia 75. The advocates of a uniform formula now sought to fix the proportion in all parts of the Empire at 50 or 60 per cent. The purpose of this proposal was to prevent American branch factories from producing most of their products in the United States and then shipping finished parts across the border, to be assembled in Canada and exported to Great Britain with the advantage of imperial tariff preference.

The British delegates to the Ottawa conference were divided on the desirability of the Canadian proposal. Since British industries were dependent on foreign raw materials, they feared that the requirement of an Empire content of as much as 50 per cent might make it difficult for the United Kingdom to obtain preferential tariffs on its own exports to other parts of the Empire. Canada herself had found it necessary to depart from her 50 per cent requirement in the case of certain textiles and to reduce the proportion to 33 1/3 per cent in order to enable the British textile industries to obtain preferential treatment.

Spokesmen of American business interests at Ottawa strongly protested against the Canadian proposal. They asserted that such an increase in Empire content would force many American branch factories to leave Canada. The local communities in which these factories were operating joined American manufacturers in opposing the plan and declared that it would result in further unemployment.

The matter was finally disposed of by the adoption of a resolution limited to expressing the desirability of a uniform requirement of Empire content. Settlement of the question was thus postponed without a definite rejection or acceptance of the Canadian plan.

5. *World Trade in Fetters*

With creditor nations matching their wits and their power against debtor nations in an attempt to curtail imports and to force exports, the trade of the world became entangled in a mass of regulations without parallel in history. High tariffs prevented repayment of debts incurred in large part to facilitate an exchange of goods; the import-license system hampered the orderly processes of trade; the quota system forced it into new and unaccustomed channels, at times running counter to the normal conditions of supply and demand; exchange control frequently subjected international trade to the decisions of subordinate officials; resort to so-called flexible provisions kept rates in a state of anarchy. The height of a country's tariff wall could no longer be measured by a study of the duties fixed in its tariff legislation. For the prescribed duties were supplemented and at times supplanted by administrative regulations, in some instances completely prohibiting imports of goods on which the tariff duty fixed by statute might not seem excessive.

Some idea of the obstacles encountered by business men in selling goods may be gleaned from *Commerce Reports*, an official publication of the United States Department of Commerce. In the issue of August 15, 1932, selected at

random, the news of a single week's foreign tariff changes ran as follows:

France renewed the quotas on fresh fruits for August and September.

The Swedish Parliament temporarily amplified the government's authority to increase existing duties and to levy new duties on goods then on the free list.

Denmark temporarily increased the excise taxes on both domestic and imported gasoline and cigarettes.

Latvia increased the duties on about half the items in its tariff law.

Poland made temporary and conditional reductions in duties on certain kinds of machinery and some miscellaneous products.

China increased the duties on silk and rayon products, medicines, and dyes.

Mexico increased the duties on various foodstuffs and certain iron, steel, and chemical products.

Honduras increased the duties on lard, butter, eggs, cheese, rice, beans, and fresh vegetables.

Brazil reduced the duties on equipment for the meat industry on condition that similar domestic products were not available.

China reduced the duty on gasoline.

Canada imposed an excise tax on all lumber imported from the United States.

The difficulty of transacting business between nations under such conditions was demonstrated by the sharp contraction of world trade.

One conspicuous exception to this general tendency to raise tariff walls ever higher was offered during the summer of 1932 by Belgium, Holland, and Luxemburg. Declaring that "the progressive realization of greater freedom of trade is one of the essential conditions of world prosperity," they signed a convention at Ouchy on July 18 which provided for a gradual and reciprocal reduction of their tariffs, and they invited the collaboration of other nations to the same end. But before this new arrangement could go into effect, it was necessary for the signatories to consult the governments with which they had most-favored-nation agreements

and ascertain whether they regarded the reciprocity proposals as consistent with these agreements. As some of the governments consulted were disposed to reserve all their rights under the most-favored-nation clauses of their treaties, the outcome of this new effort to bring down European trade barriers seemed at the end of the year to be very uncertain.

CHAPTER SEVEN

THE AMERICAN CRISIS

IN AN earlier chapter we noted briefly that in the post-war era a large amount of international lending consisted of short-term credits and of demand deposits. It will be recalled, too, that the Austrian, German, and British crises in May, June, and September, 1931, were provoked primarily by the panicky withdrawal of the liquid funds.[1] Quite plainly the existence of this large volume of credit which was subject to sudden and unpredictable movement from one money center to another was a phenomenon charged with explosive power. We propose, therefore, to examine it somewhat more closely here, particularly since in the period between October, 1931, and June, 1932, it was such an important element in the American monetary crisis.

1. *The Development of Large Short-Term Balances up to June, 1931*

A. *Causes of the Accumulation*

The accumulation of a large volume of liquid funds in the international money markets began before the onset of the depression in 1929. The accumulation was in the first instance a consequence of the settlement of the war and then of the efforts, which began in 1924, to achieve a stabilization of currencies. Many peoples of Europe, especially the Dutch, Swiss, Belgians, and French, were keeping their liquid funds on deposit in the United States.

The break-up of the four empires of Southern Europe

[1] Cf. *The United States in World Affairs, 1931*, Chapters VII, VIII, X.

brought many new nations into existence. There were in 1919 twenty-nine independent sovereignties in Europe, whereas in 1914 there had been only twenty. Each new nation insisted upon establishing its own currency and its own central bank. As a result, when the task of stabilizing the currencies of the world was undertaken, it was seen that the new nations would have great difficulty in laying their hands upon sufficient stocks of gold. Because of this difficulty, it was generally agreed that measures must be undertaken to economize in the use of gold. One of these measures was the substitution of the gold-bullion for the gold-coinage standard in some European countries. This relieved the central banks of the fear that their gold reserves would be easily withdrawn into circulation. The reserves were held in the form of gold bars, and were too expensive and too unwieldy for any general popular use. Another measure of economy in the use of gold was the adoption by many countries of the so-called gold-exchange standard.

Under this device a central bank had the option of securing its notes either with gold bullion or with balances in banks of foreign countries whose money was on the gold standard. Thus the gold held in one country, which was already the basis of credit in that country, became also the banking reserve of a foreign country. Clearly the system was inflationary, and although the banks in gold-standard countries took precautions to increase their own gold reserves in order that they might be ready to meet demands arising from these external claims upon their gold, the net result might be an expansion of the volume of bank credit.

Even before the depression this credit mechanism had encouraged the accumulation of a large volume of liquid funds subject to sudden withdrawal. The gold-exchange countries were keeping part or even the whole of their bank reserves abroad in the form of demand deposits, and the gold-standard countries deemed it advisable to maintain a considerable holding of foreign currencies to meet demands

upon them. At the end of 1930 the published data, which are admittedly incomplete, show that the floating foreign balances of the central banks were approximately 3,000 million dollars.[2]

The volume of these short-term credits was greatly increased by the gradual cessation of long-term foreign lending during the great American stock-market speculation of 1928–29. During that period the American investing public would buy only common stocks and the market for foreign bonds virtually disappeared. Moreover, the boom in Wall Street attracted funds from all the money centers of the world either for speculation or for loans on call, and for some time the rate on the call loans on the New York Stock Exchange exercised a greater influence on the international movement of funds than the discount rates of the great central banks. The result was that the United States, while a large creditor on long-term, became a debtor on short-term.

B. *Liquidation*

The volume of floating balances was increased also by the flight of capital from those countries of Europe which had depreciating currencies during the post-war years. Liquid funds were sent abroad, often in spite of the legal prohibition of capital exports, and payments due from foreigners for goods and services were allowed to accumulate in countries which had sounder currencies. This expatriated capital thus became a new source of foreign short-term credit.

The liquidation in the security markets, following the stock-market collapse of October, 1929, was an important factor in the movement of short-term capital in 1930 and 1931. In 1929 (when the stock market for most of the year was booming), the net outflow of capital from the United States to foreign countries was roughly only 300 million

[2] *Report of the Gold Delegation of the Financial Committee.* League of Nations Publication, Official No. C.502.M.243.1932.II.A.

dollars, while in 1930, a year of depression, it was 780 million dollars, and in 1931 it was approximately 550 million dollars. During the boom years the United States was a debtor on short-term account, and in 1926 and 1927 its net indebtedness amounted to approximately 900 millions. In 1931 it had ceased to be a debtor on short-term account and had become a creditor with net credits estimated at 571 millions.

C. *The Volume of Short-Term Credit in 1931*

Exact figures for the volume of short-term funds which were, so to speak, on the loose in the world at the beginning of the world financial crisis of 1931, are not obtainable, but sufficiently accurate estimates are available to enable us to say what was the order of magnitude of this phenomenon. The totals of short-term obligations at various dates in 1931 have been computed for Great Britain in the Macmillan Report of August, 1931, and in the Report of the Special Advisory Committee under the Young Plan in December; for the United States the estimates have been made by the Department of Commerce, and for Austria and Hungary they have been made by the League of Nations.

Although these estimates are not strictly comparable, since they cover different classes of credits, it may be said that at the beginning of 1931 the distribution in various countries of short-term credits due to foreign banks was approximately as follows:

(In millions of dollars)

United States	2,785
Great Britain	1,980
Germany	1,215
Austria	127
Hungary	143
Sweden	102

Other short-term debts of these six countries have been estimated at approximately 3,300 million dollars, bringing

the estimated total to something like 9,500 millions, or, say, in round numbers, 10,000 millions.[3]

2. *The International Liquidating Crisis*

The inherent danger of these mobile and sensitive credits was made manifest in the series of financial crises during 1931. The international movement of capital in that year was directed not toward investment and the stimulation of trade but toward salvaging the principal wherever possible. The hysterical violence of the movement may be inferred from estimates of the reduction of the outstanding short-term indebtedness of six countries:[4]

(In millions of dollars)

United States (year 1931)	1,500
Great Britain (July–Sept., 1931)	1,000
Germany (year 1931)[a]	1,820
Austria " "	120
Hungary " "	40
Sweden " "[a]	132

[a] The estimates of repayment for Germany and Sweden approximate the estimates of the total short-term indebtedness at the beginning of the year. This may be due to the fact that there was a large volume of short-term borrowing before the flight of funds was precipitated by the Austrian crisis.

Estimates by the Department of Commerce show a slightly smaller figure and indicate that demand liabilities of American banks to foreigners and short-term investments carried by foreigners in the United States declined 1,275 million dollars during 1931.[5] In other words, that sum was drawn out of the country. The total, however, was offset by a decline of similar obligations of foreign debtors to American creditors by 510 million dollars, that is, by American withdrawals from other countries, so that the net outflow of

[3] Based on estimates from official and confidential sources supplied to the Council on Foreign Relations.

[4] Data from authoritative and confidential sources supplied to the Council on Foreign Relations.

[5] *The Balance of International Payments of the United States in 1931*, 62.

short-term capital from the United States during the year amounted to 765 million dollars.[6]

Following the collapse of the Austrian Kredit Anstalt, there had been violent withdrawals of foreign funds and a flight of capital first from Germany, then from Great Britain, and finally from the United States. There is reason to believe that during 1931 the volume of short-term international indebtedness was reduced at least by one-third, and possibly by as much as 40 per cent. The reduction would have been greater had it not been checked by freezing much of the short-term debt by means of the so-called "standstill" agreements. The effect was violently deflationary, and it is probable that, combining the foreign withdrawals with domestic liquidation, something like 6,000 millions of dollars was withdrawn from commercial use in the debtor countries. This caused a precipitous decline in world prices and a tremendous dislocation of production and trade.

3. *The Liquidity Crisis in the United States*

The beginning of the American phase of the international financial crisis coincided with the suspension of gold payments in Great Britain on September 21, 1931. The conclusion of the crisis coincided with the completion of the withdrawal of the foreign balances, the reparation settlement at Lausanne, and the adjournment of the Seventy-second Congress, in June and July, 1932. The American phase was divided, broadly speaking, into three periods: there was a crisis in the autumn of 1931, a lull in the winter, and a renewed and more violent crisis in the spring of 1932.

[6] At the end of 1930, foreign short-term investments in the United States were computed at 2,737 millions; at the end of 1931, they were 1,462 millions. In both these cases they represent gross short-term indebtedness and, as indicated above, these amounts were offset by short-term indebtedness of foreigners to the United States. These offsets, however, were largely mathematical; that is, debtors and creditors in the United States had no means of matching their respective claims against one another, and the net indebtedness in the time of violent movement of capital out of the country is not so important as the gross sum.

A. *The Autumn Crisis of 1931*

The events of this period have already been dealt with in the preceding volume of this series.[7] It may, however, be useful to recall that beginning with the suspension of gold payments in Great Britain, the American banking system, already strained by bank failures and the domestic hoarding of currency, was subjected to additional strain by sudden large foreign withdrawals of gold, by increased bank failures, and by more intensive domestic hoarding of currency.

In the four days following Great Britain's action, 180 million dollars in gold was earmarked for foreign account. The weekly losses in millions of dollars, thereafter, were as follows: 159, 189, 102, 200, 72, 26. By October 28 the withdrawals had been completed, but the net loss had been 748 millions. The bank failures which occurred simultaneously with these withdrawals amounted to 305 for September and 522 for October. The domestic panic reflected itself in the increase of the Federal Reserve note circulation. On August 5, 1931, it stood at 1,773 millions, on September 23 at 2,045 millions, and on October 28 at 2,384 millions, the gain exceeding the normal seasonal movement. The note circulation had increased 1,016 millions in twelve months of stagnant business, and the gold holdings had declined 748 millions in six weeks.

The combination of gold withdrawals and hoarding created some concern abroad as to the stability of the American gold standard. For the Federal Reserve note circulation then had a much larger gold cover than the legal minimum of 40 per cent. Under the Federal Reserve Act, before its amendment by the Glass-Steagall bill, the security for Federal Reserve notes had to be at least 40 per cent in gold and the remainder in eligible paper. Any decline in the amount of eligible paper would have to be balanced by a corresponding increase in gold reserves. When the note cir-

[7] Cf. *The United States in World Affairs, 1931*, Chapter XI.

culation was rapidly expanding, as a result of hoarding, and the banks were not increasing their holdings of eligible paper, the amount of gold required as a cover for the notes necessarily increased. Thus, while the United States was losing gold to Europe, the amount of "free gold," or gold not required either for security against bank deposits or bank currency, was being reduced. The larger the amount of "free gold," the more successfully the country could withstand the strain resulting from violent shifts of foreign short-term credit calling for gold withdrawals.

The crisis, so far as bank failures were concerned, was arrested at the end of October by the formation of the National Credit Corporation and by the pledges of the government and of the party leaders that they would take all necessary measures to meet it. In November, just before Congress convened, the small shipments of gold still demanded by Europe were more than offset by gold imports, mainly from the Far East; the number of bank failures was reduced from 522 in October to 175 in November, and although the note circulation continued to increase, this was believed to represent a normal expansion for expenditures in the Christmas season.

B. *The Lull from December to March*

The gravity of the situation was even more apparent in December than it had been two months earlier. Investors appeared to be withdrawing from the bond market, and the effect on bond prices was catastrophic. Bank failures rose again to 358 in the month of December, and there was general liquidation and deflation throughout the economic system. It was evident that a very large part of the structure of private debts, railroad and utility bonds, urban real estate, farm debts, and municipal bonds was dangerously compromised at the existing level of prices and the existing level of business activity. Moreover, it was at last realized that the Federal deficit was alarmingly high.

Both the Administration and the public had been slow in recognizing the significance of this deficit and the necessity of taking steps to protect the public credit. The Administration had been reluctant to consider higher taxes. It had once reduced them, early in the depression, in an effort to stimulate confidence in a prompt recovery. During the greater part of 1931 it continued to hope that the problem presented by rapidly declining revenues could be solved by paring expenditures. In May it was reported that the President had begun a series of conferences with department heads in order to find means of reducing costs. In July, when the deficit for 1930–31 had reached $903,000,000, he dispatched a letter to each of the ten Cabinet officials and to all of the thirty or more heads of independent bureaus, urging that estimates for the new fiscal year and provisional estimates for the year following be cut to "the lowest point attainable without serious detriment to the public welfare."[8] As late as September, it was reported from Washington that consideration of the new budget had been postponed, "in the hope that a change in the general economic situation will relieve the stress on the government."[9]

By this time a deficit of $375,000,000 for the first three months of the new fiscal year had been added to the deficit of $903,000,000 for the fiscal year ended on June 30. In October there was still no mention of the possibility of increased taxes in a statement made by the President that he hoped "to reduce expenditures to the last cent consonant with the obligations of the government," though "no conclusions have been reached on any particular proposed economy."[10] It was not until November 16, twenty-one days before Congress reconvened, that the first admission came from the Administration that new taxes would be necessary.

The task of protecting the public credit had thus been

[8] *New York Times*, July 25, 1931.
[9] *Ibid.*, September 2, 1931.
[10] *Ibid.*, October 17, 1931.

thrust upon Congress suddenly and without preparation. The budget submitted by the President on December 9 included a plan for a temporary increase of taxes, to "be definitely terminated in two years," which the Treasury believed would add $390,000,000 to the government's revenues in 1931–32 and $920,000,000 in the year following. The President also proposed to create what was in effect a huge government bank with funds which it could lend to other banks on the security of their frozen but reasonably good collateral. This bank was named the Reconstruction Finance Corporation, and one of its functions was to lend other banks money at long terms which they could use in liquidating demand deposits. For the crisis in the banks arose from the fact that they had put their depositors' money into long-term loans and were being called upon by depositors to pay back this money on demand. The theory of the scheme was that if depositors became convinced that the public credit was available to protect their banks, the run on the banks would cease.

Submission of this plan, together with the President's proposal for increased taxes in order to bring the Federal budget more nearly into balance, made a favorable impression both in this country and in international money centers. Although some gold began to move out again in the month following the announcement of the President's program, although there was much disquiet in Europe over what were held to be inflationary tendencies in Congress, although hoarding was renewed and bank failures increased, a certain equilibrium was maintained during the winter months of 1931–32.

C. *The Crisis in the Spring of 1932*

The development which aroused fresh fears at home and abroad concerning the government's financial condition and created foreign apprehension concerning the soundness of the dollar was a revolt in Congress on the tax bill.

In drafting this legislation, the task of the Ways and Means Committee had been made more difficult by the fact

that, two months after submission of the Administration's program in December, the Treasury reported it would be necessary to raise nearly 500 million dollars in additional revenue, in order to offset a continuing decline in the yield of existing taxes and the prospective yield of the new taxes which the Administration had proposed. But since the Administration plan relied largely upon excise taxes on a selected list of industries, spokesmen of these industries now appeared in Washington and expressed bitter opposition to such taxes on the ground that they would handicap the recovery of business. At the same time doubts steadily increased as to whether even the Treasury's reduced estimates of their yield could be relied upon. As a result, the committee gradually fell back upon an alternative plan to raise a substantial part of the required revenue by means of a small general tax on the sale of manufactured articles.

As introduced in the House of Representatives on March 7, the new bill imposed a tax of 2¼ per cent on the sales value of all manufactured goods, except for a few necessities, with an estimated yield of $595,000,000. The bill also increased existing rates on personal and corporate incomes, doubled existing rates on estates, and imposed new taxes on amusements, stock transfers, and telegraph messages. The yield of these taxes was estimated at $501,000,000. Added to the estimated yield of the sales tax, this gave a total of $1,096,000. This was about $125,000,000 short of the latest estimate of the Treasury's requirements. The committee suggested that the gap be closed by reduction of expenditures.

When the bill was written, its sponsors predicted that there would be little opposition in the House. The Republican floor leader found "an easy majority" for it, after polling his side of the House, and the Democratic leader had "no doubt whatever of its passage."[11] Nevertheless, dissatisfaction with the bill appeared as soon as the debate began. The attack was centered on the sales tax. The committee

[11] *New York Times*, March 9, 15, 1932.

counted upon this tax to raise more than half the additional revenue. The opposition described it as an attempt to shift the burden of the deficit from the propertied classes to those least able to pay additional taxes. Under the leadership of Mr. La Guardia, a Republican Representative from New York, a group of "allied progressives" banded together on the second day of the debate in opposition to the plan. Five days later a group of fifty insurgent Democrats met in a night caucus and voted to "leave no honorable means unemployed" to defeat this section of the bill.[12]

This was the first revolt within the ranks of the new Democratic majority in the House, and vigorous efforts were made to bring the insurgents back into line. Shortly before the night caucus, the Chairman of the Democratic National Executive Committee, Mr. Shouse, had issued a statement calling upon all members of the party to unite behind the sales tax, not because he regarded it as good from the point of view of the Democratic philosophy, but because no substitute "that will yield the necessary money, and that will not prove more inequitable and undesirable," had been found by the House Committee.[13] The argument was put forth by many Democrats that disunion within the party on this, the first large test of the party's ability to make an important decision, would cost it the confidence of the country.

Nevertheless, opposition to the sales tax continued to increase, and with it a desire to shift a larger part of the burden to the propertied classes. On March 18, at the end of a week's debate, a coalition of insurgent Democrats and Republicans routed the regular party leaders and by a vote of 153 to 87 raised the income taxes in the pending measure to practically war-time levels, with a maximum of 65 per cent on incomes in the highest bracket. This action was taken at a stormy session. The temper of the House was on edge.

During the intermission over the ensuing week-end, the

[12] *New York Times*, March 17, 1932.
[13] *Ibid.*, March 14, 1932.

committee attempted to make the sales tax more acceptable by amending it to exempt farm implements, wearing apparel, medical supplies, and various other items. These changes reduced the effectiveness of the tax as a means of raising revenue, but failed to appease the opposition.

On March 24 the sales tax came to a decisive vote. A last appeal for it was made by Mr. Crisp, who described it as "the most equitable, the least injurious, and the surest" means of balancing the budget. "I say to you that you cannot raise the money needed to maintain the financial integrity of your government through the present income-tax structure." Only forty-four Democrats stood with Mr. Crisp when the roll was called. By the decisive vote of 223 to 153, the sales tax was defeated.[14] More votes were cast against it on the side of the Democrats, whose committee had sponsored it, than on the side of the Republicans, theoretically the party of the opposition.[15]

Rejection of the sales tax eliminated from the bill taxes meant to raise more than half the revenue which the bill originally called for. The Ways and Means Committee had no alternative plan which it was prepared to offer. It had no hold upon the loyalty of the House and no enthusiasm for the task before it. After nearly four months of labor, the program to balance the budget was thus thrown into complete confusion. The proposals of the Administration had been found to be inadequate; the proposals of the bipartisan coalition in the House had been rejected decisively. It was difficult to see how a satisfactory tax bill could be passed with Congress in a mood where its authorized leaders could not control the Democratic majority nor the Administration the Republican membership.

To observers abroad, this appeared to signify the same paralysis of government which had preceded financial col-

[14] *Congressional Record,* Seventy-second Congress, First Session, 7001.

[15] As the Democratic membership of the House at this time was 219, and the Republican 214, 20 per cent of the Democrats and 50 per cent of the Republicans supported the sales tax.

lapse in so many other countries. What everybody saw was that the leaders of both parties had been defied by the rank and file of the people's representatives. This was taken to mean not only that the sales tax was unpopular with a large part of the voters, but that it was uncertain whether other forms of taxation would not be equally unpopular, and therefore that Congress might rebel at accepting the principle of a balanced budget.

It was plain that if Congress proved unwilling to vote new taxes and to curtail expenditures, the government would be spending something like two dollars for every dollar of its revenue, and that borrowing to meet the difference would impair the public credit. The creditor classes realized that if there was no dependable purpose to make both ends meet, government securities could be floated only at rising interest rates, and that the next stage might be an inflation of the currency by means of the printing press.

These fears of inflation were not unfounded. Various proposals for the relief of the unemployed, for the benefit of the ex-soldiers, and for the artificial control of prices had already been brought forward by members of Congress, and there was evidence that some of them would command strong support. Moreover, part of this support was based not so much on the professed purpose of the measures as on the broader principle that they would make money more abundant, would cheapen credit, and would raise prices. The voice of the debtor classes and the debtor communities had been raised once more against hard money.

European fears as to the possibility of inflation were reflected in the outflow of gold. Net exports of gold in March were 25 millions; in April, 30 millions; in May, 195 millions, and in June, 206 millions.[16] France, Switzerland, Belgium, and Holland were feverishly repatriating their American

[16] These figures of exports do not tally with dat.. of gold stocks, owing to earmarking operations.

credits. They were unwilling any longer to put their trust in the soundness of the dollar. From March to the middle of June the dollar was at a discount in the markets of the foreign gold-standard countries, and at one time all available transportation facilities were engaged in advance for moving gold outside of the United States.

In the nine months beginning September 1, 1931, the United States exported or earmarked 1,547 million dollars in gold. This was offset by an inflow of 434 millions from debtor countries—Canada, Latin America, and the Far East—so that the net loss was 1,113 millions. Never before had the country's financial mechanism been subjected to such a strain, and it may perhaps be added in retrospect, never before had its inherent strength been so thoroughly demonstrated.

4. *Measures to Meet the Crisis*

The measures taken to meet the crisis fall into three categories: there was the central banking policy adopted by the Federal Reserve System; there was the effort of the government to preserve the national credit by proving its adherence to the principle of a balanced budget; and there was the effort to defeat inflationary proposals. When the Federal Reserve policy had been put into operation, when the budget had been balanced in principle, when the inflationary measures had been defeated, and Congress had adjourned, fears concerning the gold standard were allayed, and a radical improvement in the financial situation began almost immediately.

A. *Central Banking Policy*

American banking policy during the crisis had as its fundamental premise a determination to impose no obstacles to the withdrawal of gold. The banking authorities in Washington and in New York did not waver in their refusal to

consider artificial restrictions upon gold payments. They clung to the well-tested theory that an inherently sound bank can most effectively stop a run of its depositors by meeting their demands promptly and cheerfully.

But, of course, the Federal Reserve banks had somehow to fill up the void created by the large foreign gold withdrawals. This they did by expanding their credit and by maintaining easy-money conditions through the purchase of securities. They took advantage of the new powers conferred upon them by the Glass-Steagall Act, which altered the powers of the Federal Reserve banks by authorizing them, under certain conditions, to lend to member banks on long-term government banks, and they began the purchase of government securities on a large scale. From February 24 to June 29, Federal Reserve holdings of United States securities increased by 1,060 million dollars. By this means the Federal Reserve banks were able not only to reduce the indebtedness of their member banks by 365 millions but to offset the new withdrawals of gold in the spring.

Discussion of this bold policy falls outside the scope of this volume. We may be sure that this critical experiment in the management of credit will long be remembered and its significance examined. For our purpose it suffices to note one of its consequences, which was that enough credit was created by central banking action to enable American banks to meet all the foreign demands made upon them without incurring severe pressure to liquidate other loans. This would have come if the banks had been forced to meet these demands by further borrowing.

B. *The Effort to Balance the Budget*

(i) *The Tax Bill*

On March 29, after the House of Representatives had been in open revolt against its leaders for more than ten days, Speaker Garner made an earnest appeal to the members to

put aside their partisanship and "economic theories" and show the country that they were going to balance the budget. In camp-meeting fashion he called on every member who desired a balanced budget to testify to that fact by rising in his seat. The House rose in a body.[17]

A new tax bill was hastily compiled, the intention being to transfer the debate as quickly as possible from the demoralized House to the Senate. The new bill, with the manufacturers' sales tax eliminated, was adopted by a vote of 327 to 64. In lieu of the sales tax, the bill provided for excise taxes on luxuries, for taxes on stock transfers, for higher postage rates, and for higher taxes on incomes. In theory the bill was supposed to supply 1,032 millions in additional revenue, and when supplemented by 230 millions in government economies, was supposed to balance the budget with a small margin of safety. The estimates of revenue were, however, known to be optimistic and the proposed economies uncertain of achievement.

The Senate Finance Committee soon made it known that it intended to rewrite the measure. Finally, on May 9, the bill was laid before the Senate. It differed from the House measure in several important particulars, notably in its provision for still higher taxes on incomes. In dealing with the measure, the Senate showed its usual deliberation. The debate dragged on till the end of May, causing much anxiety. Gold was leaving the country during that month at the rate of nearly 40 millions a week. On May 31, President Hoover appeared before the Senate and urged speed in balancing the budget. As a matter of fact, an agreement had been reached the night before, and at the same sitting, shortly after midnight, the bill, with rates finally adjusted so as to bring the budget into theoretical balance, provided that the expected economies were adopted, was passed by a vote of 72 to 11.

[17] *New York Times*, March 30, 1932.

(ii) *The Economy Bill*

All the various versions of the tax bill were based on the assumption that government expenditures would be reduced. The first measure taken was to reduce the regular appropriation bills by 184 millions below the departmental estimates. But this was clearly insufficient, and on February 19 the House appointed an Economy Committee to find other ways of curtailing expenses. It was planned to include all provisions for the reduction of services, personnel, and appropriations, and for the consolidation of overlapping agencies, in an omnibus economy bill. After much wrangling, the committee reported such a measure to the House on April 25. It promised savings of 263 millions through a reduction of salaries above $1,000 by 11 per cent, through savings in the Veterans' Bureau, and through consolidation of the War and Navy Departments. In the House the measure was torn to tatters. So many provisions were struck out that when it finally passed on May 3, it provided for no more than 30 millions in savings.

Then the Senate took a hand with somewhat better results, though its measure fell far short of the savings originally contemplated. It reduced salaries above $1,000 by 10 per cent, but overwhelmingly rejected the reduction of 48 millions proposed by its committee in expenditures for war veterans; and the bill as finally passed on June 8 made possible savings estimated at from 134 to 146 millions, or about half the amount originally deemed necessary.

In conference the bill was amended, at Mr. Hoover's insistence, so as to provide a thirty-day furlough without pay in lieu of percentage wage-cuts. This provision, and the enforced retirement of employees who had reached the age limit, were the chief features of the bill which the President signed on June 30. He announced that he signed it "with but limited satisfaction." The estimated savings for the ensuing year were 150 million dollars, to which should be

added reductions in the regular appropriation bills of 184 millions.

(iii) *The Budget in Theoretical Balance*

The total appropriations at this session of Congress amounted to 4,036 millions,[18] and both Democratic and Republican leaders insisted that this represented a decrease of 184 millions in the departmental estimates. This, added to the 150 millions saved by the economy bill, brought the total savings, according to their estimate, up to 334 millions. By adding to this the 1,118 millions of new revenue promised in the tax bill, the budget was theoretically balanced. For these two items amounted to 1,452 millions, and slightly exceeded the estimated deficit of 1,416 millions in the federal budget presented to Congress in December.

It was, of course, generally realized that in fact the budget was not balanced and that the fiscal year ending June 30, 1933, would show a large deficit. But the investment markets of the world chose to take the will for the deed on the assumption that Congress had shown a desire to balance the budget and that with ample resources of revenue as yet untouched, the credit of the United States was good. Seasoned observers felt that Congress had done as well as, and perhaps somewhat better than, any other popular legislature confronted with the same problem, and that after the national election the balancing of the budget could be undertaken with greater promise of success.

[18] This did not include the special outlays of the Reconstruction Finance Corporation other than the purchases authorized by Congress of its capital stock. The disbursements by this organization from proceeds of the loans which it negotiated directly were carried in an extraordinary budget. At the end of the fiscal year on June 30, the Reconstruction Finance Corporation had authorized total loans of 1,055 million dollars and had actually advanced 805 millions. Repayments of 76 millions left the net outlay at 729 millions. If these disbursements had been included in the regular budget, the deficit at the end of the fiscal year would have been larger, and the prospective outlays by the Corporation for the ensuing years would have destroyed the theoretical balance of the Federal budget at the end of the year 1932–33.

C. *The Struggle against Inflation*

We have now to consider a series of measures which, had they been adopted, would have signified an intention to inflate the currency or to throw the budget hopelessly out of balance.

(i) *The Goldsborough Bill*

The first of these was known as the Goldsborough bill.[19] According to its title, it was a measure "for restoring and maintaining the purchasing power of the dollar." It stipulated that the policy of the United States should be to restore and maintain "the average purchasing power of the dollar as ascertained by the Department of Labor in the wholesale commodity markets for the period covering the years 1921 to 1929 inclusive." This would have required a rise in prices of 50 per cent above the current level indicated by the index of the Department of Labor. The Federal Reserve Board, the Federal Reserve banks, and the Secretary of the Treasury were charged with the duty of making this policy effective "by the control of the volume of credit and currency." The bill was in fact the expression of a hope. For it fixed no time limit and prescribed no detailed procedure for attaining its object, and it provided no penalties if the Reserve authorities failed to achieve the desired price level.

In a report brought in on April 23 favoring the passage of the bill, the House Committee on Currency and Banking declared that it had "reached the conclusion that unless the price level was raised substantially . . . the burden of debt would not only seriously hamper production and destroy the producing class as now constituted, but that the creditor class, being unable to collect their fixed obligations, would also go down in the crash." The committee declared, too, that the Federal Reserve system was "in a position to put into the market $4,000,000,000 in Federal Reserve notes and still maintain its 40 per cent reserve requirements. By utilizing

[19] H. R. 11499.

its power to lower reserve requirements of the Federal Reserve banks the system could put into the market nearly $9,000,000,000 of Federal Reserve notes."

Here was a hint of inflation on a vast scale. Some of the supporters of the measure sought to explain away the extremely inflationary mandate to the Reserve authorities by stating that the bill merely directed them to proceed more vigorously with their policy of buying securities in the open market and injecting liquid funds into the banks to stimulate a revival of business. The bill really intended that they should go much further. For it was a far call from a policy of creating easy money by open-market operations to the pumping of credit into the money markets until prices were raised 50 per cent above existing levels.

So confident were the sponsors of this measure, that on May 2 they brought it up in the House under a suspension of the rules, requiring a two-thirds vote. On its final passage in the House the opposition was completely routed, the vote being 289 to 60. The vote by parties was as follows:

For the bill: Democrats, 165; Republicans, 123; Farmer Labor, 1; against the bill: Republicans, 57; Democrats, 3.[20]

This vote was disturbing to confidence. It indicated that the House was out of control by the recognized leaders of both parties, and it proved the existence of a very powerful desire for outright inflation.

The action of the House attracted wide attention in Europe. To many countries, especially in Central Europe, the dollar was a kind of secondary currency. It was often substituted for the less stable national currencies in business contracts; it was hoarded, and dollar exchange formed a large part of bank reserves. On the passage of the Goldsborough bill, dollar quotations fell in the European markets.

When the measure came from the House, many Senators declared themselves in favor of it. But within a week it was evident that the bill would not receive the favorable treat-

[20] *Congressional Record,* Seventy-second Congress, First Session, 9688.

ment accorded it in the House and that European holders of dollars had little to fear from this project. The measure was referred to the Committee on Banking and Currency and there it was eventually displaced by a bill which Senator Glass offered frankly as a means of getting rid of the Goldsborough bill. The Glass bill authorized national banks to increase their note circulation up to the amount of their paid-up capital by depositing as security government bonds bearing not over 3⅜ per cent interest. This privilege was limited to three years. The only change that this bill made in the existing currency system was to increase the list of bonds available as security for national bank notes. It was regarded as a backward step toward the inelastic currency which the Federal Reserve notes were intended to supplant, but it was not a dangerously inflationary measure, and was not expected greatly to increase the volume of bank currency.

(ii) *The Patman Bill*

A greater threat was made when it appeared that members of the House were willing to heed the demand of the ex-soldiers for full payment of the adjusted compensation certificates. Many bonus bills were introduced and all of them were measures which in one way or another required an inflation of the currency.

The face value of the outstanding bonus certificates amounted, in round numbers, to 3,639 million dollars. Loans which had been made to the ex-soldiers on these certificates under previous legislation amounted to 1,248 millions, leaving the sum of 2,390 millions owed to the veterans in 1945. It was proposed that this sum be paid to the veterans at once in cash. With the Treasury facing another huge deficit and with the country unable to stand the burden of taxation which the bonus payment would entail, the only way to obtain the money was by a bond issue or some form of currency inflation. Senator Thomas of Oklahoma proposed, for example, that the Treasury issue bonds equal to the amount

of the bonus payments and distribute them among the Federal Reserve banks in proportion to the number of applications received for the bonus payments. These bonds were to serve as security for Federal Reserve bank notes which were to be issued up to 100 per cent of the face value of the bonds and paid to the applicants for the bonus. The new notes were to be legal tender in payment of all public and private debts.

A similar measure was brought forward in the House and was known as the Patman bill. The advocates of the cash bonus agreed on this bill. It was introduced on January 14 and referred to the Ways and Means Committee, from which on May 7, by a vote of 15 to 10, it was returned with an unfavorable report. The bonus advocates were not deterred. On June 13, with the galleries and corridors packed with bonus sympathizers, the House, by a vote of 226 to 176, adopted a motion to discharge the Rules Committee from further consideration of the bill and made this measure a continued order until it was finally disposed of. After two days of debate, it passed the House on June 15 by a vote of 211 to 176.

As it passed the House, the Patman bill provided that the Veterans' Administration should pay the full face value, less amounts previously borrowed and accrued interest, of the adjusted service certificates. The Secretary of the Treasury was authorized to issue additional currency to the amount necessary to meet the obligations. He was to issue a like amount of United States bonds bearing 3½ per cent interest and deposit them with the Federal Reserve banks as agents of the government. The Federal Reserve Board was authorized at any time to direct the sale to the public of such portions of these bonds as it deemed expedient, and the currency received from their sale was to be returned to the Treasury to redeem the notes issued in payment of the bonus.

The measure at once went to the Senate and on the following day, June 16, the Senate Finance Committee made an

adverse report by a vote of 14 to 2. On June 17 it was brought before the Senate and defeated by the decisive vote of 62 to 18.[21]

The total stock of money in the United States at this time was 5,400 million dollars. The Patman bill would have increased this amount immediately by about 45 per cent. Naturally such a proposal was viewed with alarm both at home and abroad by the supporters of hard money, and the defeat of the measure was interpreted as a victory for the gold standard.

(iii) *The Garner Bill*

The struggle in Congress over federal relief of unemployment did not raise directly the question of currency inflation but it did involve the balancing of the budget and thus indirectly foreshadowed the possibility of deficit-financing by inflation. On May 12 President Hoover had asked the Democratic and Republican leaders in the Senate to consider a three-point program for the relief of unemployment:

1. That the Reconstruction Finance Corporation should issue additional debentures to the amount of 1,500 millions, to be advanced in part to the states for general relief measures and also to finance assured and productive enterprises of private business.
2. That state bonds which could not be sold in the open market might be bought by the Reconstruction Finance Corporation so that the proceeds could be used for unemployment relief.
3. That the Reconstruction Finance Corporation should make loans for self-liquidating public works such as toll bridges, and so forth.

Shortly thereafter, in a letter to the American Society of Civil Engineers, the President elaborated this program and stressed, among other things, the necessity of avoiding further issues of credit securities, the desirability of authorizing public works which would not place additional burdens on

[21] *Congressional Record*, Seventy-second Congress, First Session, 13403, 13450, 13508–13509, 13700.

the taxpayer or require government borrowing, the importance of expanding credit by the Federal Reserve banks through the open-market policy, and the balancing of the budget as the foundation of all these measures. On May 25 Senator Wagner of New York introduced a relief bill in the Senate which embodied some of the proposals made by the President, but differed in important particulars.

But in the meantime Speaker Garner had drafted a relief bill which ran counter to the President's proposals, and on May 26 a caucus of the Democratic members of the House approved this bill. It was introduced in the House on May 27, and was reintroduced in a revised form on May 28. The original bill contemplated a federal expenditure of 2,147 million dollars. After revision, the contemplated expenditure was raised to 2,309 millions. It provided a total of 1,209 millions for public-works construction, including buildings, highways, and waterway improvements. In sixty closely printed pages it carried a list of about 2,300 new post-office buildings which would cost about 150 millions. In addition to the amount approved for construction, the funds of the Reconstruction Finance Corporation were to be increased by 1,000 millions for loans to states and their political subdivisions and to private industry, and 100 million dollars was set aside for use by the President for direct relief.

The Garner bill was severely arraigned by the President, who issued a public statement in which he denounced the measure as inflationary and declared that it "would require appropriations to be made to the federal departments, thus creating a deficit in the budget that could only be met with more taxes and more federal bond issues. That makes the balancing of the budget hopeless." The President continued by saying that "an unbalanced budget means the loss of confidence of our own people and of other nations in the credit and stability of the government, and that the consequences are national demoralization and the loss of ten times as many

jobs as would be created by this program, even if it could be physically put into action." He cited the fact that the interest and upkeep of the post-office buildings alone would amount to 14 million dollars per annum, as against the present cost of less than 3 millions.

On June 7 the House passed the Garner bill by a vote of 216 to 182.[22] The measure was adopted under a special rule which permitted only committee amendments, and the adoption of this rule was made possible by the help of thirteen Republican insurgents led by Representative La Guardia of New York.

On June 23 the Wagner bill, carrying about the same total appropriations, passed the Senate. This measure provided 300 million dollars for loans to the states for direct relief of the unemployed, 500 millions for federal construction projects, and 1,460 millions for loans to states and their political subdivisions and to private corporations for public self-liquidating enterprises.

While providing practically the same amount of expenditure as the Garner bill, the Wagner bill differed from it in two important particulars: it reduced the appropriation for federal construction projects by one-half, but increased the amount for self-liquidating enterprises. In the provision for loans to the states for relief purposes and for loans through the Reconstruction Finance Corporation to self-liquidating enterprises, the Wagner bill was in substantial agreement with the recommendations previously made by the President. It varied from the President's program by authorizing a larger amount for federal construction than was already carried in the budget, but this larger expenditure was not made mandatory.

The Wagner bill was sent to conference to be compromised with the Garner bill. The measure which was reported from the Conference Committee and which passed the House

[22] *Congressional Record*, Seventy-second Congress, First Session, 12615.

on July 7 and the Senate on July 9 eliminated the safeguards around the 1,500-million-dollar fund to be used by the Reconstruction Finance Corporation, and at Speaker Garner's insistence provided that loans might be made to private individuals, partnerships, and corporations "on any conceivable security and for every purpose."[28] In a public statement, while the bill was still pending, President Hoover declared that it would make the Reconstruction Finance Corporation "the most gigantic banking and pawnbroking business in all history." On July 11 he returned the measure without his approval, and at the same time urged Congress to enact a more practicable relief measure.

Five days after the veto of this bill, Congress passed a substitute which abandoned the plan for loans to private individuals but empowered the Federal Reserve banks to make such loans on certification that the borrowers had been unable to obtain credit from other institutions. This provision was not conducive to inflation. The loans were properly safeguarded. Only paper of the kind already eligible for rediscount under the Federal Reserve Act might be employed as a basis for the new credits. Furthermore, an affirmative vote of no fewer than five members of the Federal Reserve Board was required for the approval of these loans. Therefore the extent to which this could lead to the expansion of bank credit would depend on the manner in which the Reserve Board exercised its powers.

After a confused struggle, a measure was enacted which in its essentials conformed to what were regarded as sufficiently sound principles. The investment markets took the view that the credit of the government had not been impaired. The defeat of inflationary or extravagant measures, the evidences of a national opinion favorable to the balancing of the budget by taxation and economy, the effective relief to the banks provided by the Reconstruction Finance Corporation and by the open-market operations of the Federal

[28] President Hoover's description.

Reserve banks, and the completion of the gold withdrawals, brought the American financial crisis to an end. When Congress adjourned on July 16, anxiety about the national credit and American adherence to the gold standard had largely disappeared.

CHAPTER EIGHT

THE LAUSANNE SETTLEMENT

CONTEMPORANEOUSLY with the successful meeting of the crisis in the United States, the Western powers of Europe made important progress at Lausanne toward the liquidation of the consequences of the World War. They had, as we have already pointed out, postponed until the last possible moment the conference which would decide what was to be done about German reparations. During the autumn and winter their efforts to come to a decision had all been abortive, and the only agreement they had been able to reach was contained in the announcement of February 13 that in June they would hold a conference at Lausanne for the purpose of making "a lasting settlement" and of concerting "measures necessary to solve the other economic and financial difficulties." At the time of the announcement small hope was entertained anywhere that they would be able to agree on anything beyond a prolongation of the moratorium, so profound was the general sense of political impotence. There was uncertainty even as to the meaning of the announcement, it being pointed out by some commentators in Paris that the French text used the word *"durable,"* which did not necessarily mean "lasting" or "permanent."[1]

The month of June had been chosen for the Lausanne conference because the Hoover moratorium expired on June 30, 1932, and a German payment under the Young Plan would fall due on July 15. The conference could not, therefore, be held later than June. On the other hand, it could not be

[1] *New York Times,* February 14, 1932.

held earlier, for in both France and Germany national elections were appointed for the spring, and negotiations were out of the question until they had been concluded. These elections were watched with anxiety as to whether the two nations most concerned in the complex of post-war problems could set up governments that were strong enough in the confidence of their people to adopt a policy of conciliation.

1. *The French and German Elections in the Spring of 1932*

A. *The German Swing to the Right*

Germany had first of all to vote on the question whether von Hindenburg should succeed himself as President of the Reich. In this election his chief rival was Adolf Hitler, leader of the National Socialists, but there were two other candidates in the field who had sufficient strength to count importantly in the result. One was the Nationalist candidate, Theodor Duesterberg, the leader of the Steel Helmets, an organization of war veterans, and the other was Ernst Thaelmann, the Communist candidate. Around Hindenburg there rallied the Social Democrats, the Catholic Center, and the liberal *bourgeoisie*; around Hitler, a vast following of the discontented, half bolshevist and half nationalist; around Duesterberg, a small but powerful remnant of the old military and bureaucratic caste which would not follow Hindenburg in his loyalty to the Republic.

The vote was taken on March 13 with the following results:

Hindenburg.....	18,654,690	49.55 per cent
Hitler.....	11,341,360	30.12 " "
Thaelmann.....	4,982,939	13.23 " "
Duesterberg.....	2,558,939	6.80 " "
Winter.....	111,488	0.30 " "
	37,649,416	100 " "

The Weimar Constitution provides that if at the first election no candidate receives a majority of all the ballots, a

second election must be held. Von Hindenburg thus failed of election by 174,329 votes in a poll of over 37 millions and another election was called for April 10. Duesterberg, the Nationalist candidate, withdrew and Hindenburg received 19,359,642 votes, or 53 per cent of the total, defeating his nearest rival, Hitler, by 5,942,182 votes.

This settled the question of the Presidency and seemed to indicate a determination on the part of the majority of the Germans not to turn to the desperate course symbolized by Hitler and his National Socialists. But there had still to be decided the question whether the moderate parties could command sufficient strength to pursue a positive policy of moderation. This question was put to the test on April 24 in the balloting for members of the Diets of the various states of the Reich.[2] The result was disquieting. The National Socialists obtained a plurality of seats in all the states except Bavaria; in the Prussian Diet they won 162 seats out of a total of 422. Germany found herself in a condition of parliamentary stalemate. The National Socialists were not strong enough to govern alone. They were so strong that no combination of opposing parties could govern without them, and they were unwilling to coöperate with any of the other parties except on terms which would have meant a virtual surrender on all points.

It appeared that the Germans were too deeply divided among themselves to achieve a responsible government by the process of democratic election. The differences between the parties were deeper than issues of policy; they were constitutional and revolutionary, and popular government has always been unworkable where there are lacking common premises and common loyalties. The choice before Germany seemed to be between civil war and a dictatorship, and faced with this choice, President von Hindenburg opted for a dic-

[2] The last election to the Reichstag on September 14, 1930, had given the National Socialists 18.6 per cent of the seats, the Communists 13.3 per cent, the Nationalists 7.1 per cent, and the Social Democrats 24.8 per cent.

tatorship and placed the power in the hands of the Prussian soldiers and noblemen of the old régime. On May 30 he forced the resignation of the Bruening Cabinet and appointed Lieutenant-Colonel Franz von Papen Chancellor.

Thus, on the eve of the Lausanne conference, Germany appeared on the scene with a Government radically different in character and personnel from that of any other Government since the overthrow of the monarchy. The negotiations had to be conducted at Lausanne with nationalists who rejected totally the ideas of the Versailles settlement and were avowedly determined upon the prompt liberation of Germany from all the servitudes of the treaty.

B. *The French Swing to the Left*

On May 1 and 8 the French voters cast their ballots for members of the Chamber of Deputies. Under the electoral system of France, a candidate for the Chamber must receive a majority of the votes cast in his district on the first ballot or face a second contest a week later. On the second ballot, only a plurality is required for election. The Tardieu Government, then in office, obtained its support in the Chamber from the parties of the Right and the Right-Center. This had been true also of the preceding Laval Government and indeed of all the Governments that had held office for more than a very brief period since the previous general election in 1928.

In spite of his energy and brilliance, M. Tardieu had recently lost prestige at home following the cold reception given at the Disarmament Conference to his proposal for an international army under League supervision[3] and the rejection at the London conference of his plan for a system of tariff preferences for the Danubian states.[4] France was also beginning to feel the rigors of the depression. She was the last of the important commercial countries to do so. Un-

[3] Cf. Chapter XII.
[4] Cf. Chapter II.

employment had become a problem; the trade balance was growing more unfavorable; the budget deficit was increasing; there was loud complaint of the high cost of living and heavy taxation. All these things reacted against the Tardieu Government, and it entered the campaign under a handicap.

On the other hand, the strength shown by the National Socialists in the recent German elections indicated the possibility of a counter-movement toward nationalism in France, and this strengthened the hopes of the parties of the Right. Without the threat of Hitler, all signs would have pointed to the replacement of the Right-Center leadership in the Chamber of Deputies by a bloc of the parties of the Left. The German situation increased the uncertainty of the election.

The first balloting on Sunday, May 1, showed a pronounced shift to the Left and indicated that the French voters were not greatly influenced by developments in Germany but were more deeply swayed by domestic politics. The second election the following Sunday fully confirmed the indications of the first.[5] The parties of the Right and Center, upon which the existing Government depended for support, lost 81 seats with a corresponding gain for the parties of the Left.[6]

The leader of the opposition to the Tardieu Government was Édouard Herriot, chief of the Radical Socialist party,[7] who had been Premier in 1924–25. Before the election the Radical Socialists, with 109 deputies, were the largest party in the Chamber. The election increased their number to 158, while the party of Premier Tardieu, the Left Republicans,[8] found its membership reduced from 92 to 66.[9]

[5] The assassination of President Doumer by a Russian *émigré* on the eve of the second balloting may have aroused nationalist emotions to some extent, but it had no appreciable effect on the vote.

[6] *L'Europe Nouvelle,* XV, 633, May 14, 1932.

[7] The names of French political parties are sometimes confusing to Americans. The Radical Socialists are neither radical nor socialist in the sense in which these terms are used in the United States. The nearest American equivalent for Radical Socialist would probably be Progressive.

[8] This is another illustration of the complexities of French politics. The Left Republicans sat with the Center but their policies were conservative.

[9] *L'Europe Nouvelle,* XV, 633, May 14, 1932.

After this defeat of the parties of the Right, M. Tardieu and his Cabinet on May 10 tendered their resignations to M. Lebrun, the newly elected President of France. But at the President's request they agreed to remain in office until the new Chamber of Deputies met on June 2. The outcome of the election made M. Herriot the logical choice as Premier. He completed the task of forming a new Government on June 4, and chose his ministers mainly from the conservative element in his own party and from their close associates of the Center.

It would be a mistake to assume that in rejecting the Tardieu Government the French voters were advocating any radical change of foreign policy. During the campaign the speeches of both Tardieu and Herriot indicated no fundamental difference in their views on the international relations of France. M. Herriot, when he was Premier some eight years before, had himself originated the French formula of "arbitration, security, and disarmament," thus indicating the priority of security over the reduction of armament. In an attack on the Hoover moratorium in one of his preëlection speeches, M. Herriot had again shown that in matters of foreign policy his opinions were not basically different from those of MM. Tardieu and Laval.

It was not so much in his belief in fundamentals as in his personal attitude and mode of approach that the new Premier differed from his conservative predecessors. While formally insisting, as his predecessors had done, on the maintenance of pledges, M. Herriot refused to close his eyes to the realities of the reparation problem. He knew that the Young Plan could not be resurrected, but insisted that any modification of the formal settlement should be made by mutual agreement and not by outright repudiation with all its untoward consequences. In spite of the fact, therefore, that Germany and France had swung in opposite ways at the recent elections, the attitude of understanding taken by Premier Herriot

seemed to improve the prospect that something would be accomplished at Lausanne.

2. *The Position before the Lausanne Conference*

These developments made it evident that the negotiations at Lausanne would deal only nominally with the financial aspects of reparations but actually with the diplomatic balance of power in Europe and with the American war debts. The Germans had made it plain that they would pay no more reparations even if they could, and expert opinion had pronounced Germany incapable of making the conditional payments for some years to come.[10] The French people, with a relatively small minority dissenting, had clearly become convinced that the Young Plan was obsolete and that the system of reparation payments could not, and probably should not, be preserved.

The interest of the French government at Lausanne was not in bargaining with Germany about money but in bargaining with Great Britain about a policy toward the debts to the United States and about a defense against the avowed determination of Germany to revise the Versailles settlement. As to reparations, the task of the statesmen at Lausanne was a simple one. They had merely to arrange a formula which in fact liberated Germany from the obligation to make any immediate payment whatsoever and any important payment at any time. They had to concede the virtual abolition of reparations while retaining certain technical reservations which could be used as elements of the European case in discussions about revision of the war debts. M. Herriot was ready to let Germany off. His task at Lausanne was on the one hand to prepare the ground for dealing with the United States, and on the other for dealing with the larger ambitions

[10] Cf. Chapter II. The Young Plan Advisory Committee, which had brought in this report on Germany's ability to pay, was authorized to consider only the conditional payments, but by implication its report may have applied also to the unconditional payments.

of Germany in regard to equality of armaments and, perhaps eventually, to revision of frontiers.

Though it was advertised as financial and economic, the Lausanne conference was essentially political. The real problems on which M. Herriot and Mr. MacDonald had to reach an understanding were, apart from the special question of their future course of action toward the American debt, the same problems which at Geneva, some forty miles away, had produced a stalemate in the discussion of disarmament. For that reason the technical description of the reparation settlement which follows is in a sense an interruption of the main story of European events in June and July of 1932. We deal with the reparation settlement first because the real object of the Lausanne conference was not to settle reparations but to deal with the more important consequences of a settlement which were ordained by circumstances before the conference met and were beyond anyone's power to avoid.

3. *The Reparation Settlement at Lausanne*

The date fixed for the conference was June 16, less than a fortnight after the formation of the Herriot Government. In the days just before the meeting, a certain amount of diplomatic maneuvering took place, which in the light of subsequent events may be interpreted as the effort of M. Herriot to put pressure upon Mr. MacDonald in order to win his assent to French political objectives. M. Herriot withheld his consent to the abolition of reparations, which he must have known was now unavoidable, so as to make it harder for Mr. MacDonald to refuse political concessions and to make it easier for Mr. MacDonald to justify them to British opinion.

A. *Preliminary Maneuvers*

On June 8 the announcement was made in London that M. Herriot had invited Mr. MacDonald and Sir John Simon, the British Foreign Secretary, to Paris to discuss matters

which were to engage their attention at Lausanne. It was intimated that the British and French governments would not undertake to devise a common plan before going to the conference. For on taking office M. Herriot had observed the conventional French theses and had shown his disapproval of the British thesis that reparations should be completely annulled. He had declared that "France cannot permit those rights to be contested which are the outcome not only of treaties but of contractual agreements protected by the honor of the signatories." Nevertheless, he had left the door open. For he had added that his government was "ready to discuss any project, to take any initiative which will produce the compensation of greater world stability or loyal reconciliations in peace."[11] But a few days later it was announced in London that he had notified the British government through diplomatic channels that he would not accept the British suggestion that reparations be abandoned. The situation was further complicated by an oral announcement from the State Department in Washington that the American government had not abated its opposition to the ending of reparations on condition that the war debts owing to the United States should be annulled.

Mr. MacDonald and his Cabinet colleagues were not deterred by these difficulties, and no doubt understood the delicacy of the maneuvers which M. Herriot was conducting. Mr. Neville Chamberlain, the Chancellor of the Exchequer, shortly before leaving for the conference, expressed the belief, in the House of Commons, that the meeting at Lausanne might be "a turning point in the history of Europe during these difficult days," and gave as his reason for this view the increasing gravity of the depression, which had "brought home to other peoples the realities of the situation."[12]

On the morning of June 11, Mr. MacDonald and Sir John Simon left London for Paris. The purpose of their visit, as

[11] *New York Times,* June 8, 1932.
[12] *New York Herald Tribune,* June 11, 1932.

the Prime Minister later said, was to have the French and British representatives "think out loud." The conversations were held, and there was issued the somewhat cryptic announcement that the Premier and the Prime Minister had arrived at a full and friendly understanding of their respective positions. On at least one matter the two governments were said to have reached an agreement in advance of the meeting. This was that all payments which might become due between European governments at the expiration of the moratorium on June 30 should be "reserved during the period of the conference."[18] This proposal was accepted by the conference at its second meeting.

B. *Lausanne, June 16–July 8*

The conference opened on June 16 with more than 600 delegates from thirteen countries in attendance. The conditions under which it assembled seemed highly unfavorable to any substantial accomplishment, and pessimism prevailed both at Lausanne and in the world capitals. Only Mr. MacDonald and his colleagues seemed really hopeful of a positive result. The British meant business. Their delegation contained five Cabinet ministers—the Prime Minister, Sir John Simon, Mr. Chamberlain, Mr. Runciman, and Sir Herbert Samuel—and they did everything to impress the world with their conviction that affairs were at such a critical state that the further postponement of all great issues would be highly dangerous.

Mr. MacDonald's opening address was pitched on an emotional plane, but it was restrained in its argument. He called for "bold proposals which by their very character will command the respect of the whole world." His speech revived the hope that a genuine effort would be made to effect that "lasting settlement" which had been promised in the invitation to the conference, and a more optimistic view of the proceedings became noticeable. On the following day,

[18] *New York Times*, June 18, 1932.

the decision was made to "reserve" the European intergovernmental debts during the life of the conference;[14] this was interpreted as meaning that the governments would afford themselves the time necessary to reach a settlement by bold measures.

Such a view was expressed by Chancellor von Papen of Germany, who welcomed this action as the first visible proof that the nations intended to take the final action necessary to solve the problem of reparations. The Chancellor's speech before the conference was notable for its moderation. He did not exploit the victory which he was now almost certain to achieve. He took account of French sensibilities, and his conciliatory attitude, together with his personal friendliness to France, made easier the eventual success of the conference. He did not dispute the legality of the Young Plan and gave no hint of the possibility of Germany's repudiation of reparation payments. But he insisted that palliatives would not suffice, that experience had shown the impossibility of resuming payments, and that any attempts at their resumption would bring nothing but defeat. For while reparations had been intended originally for reconstruction, their continuance could result only in destruction.

The German Chancellor was followed by Premier Herriot, who agreed that Germany for the time being could not continue payments. At the same time he insisted upon the connection between reparations and the other war debts and declared that a European settlement could "operate only within a world framework. Europe cannot act alone." Thus, at the very beginning of the conference, the close relation between war debts and reparations was brought into the discussion.

Premier Herriot insisted that the cancellation of reparations without a corresponding readjustment of the allied war

[14] The signatories to this agreement of June 17 were Great Britain, France, Italy, Belgium, and Japan. Payments of approximately 45 million dollars were due between July 1 and July 15.

debts would place Germany in a privileged position. He cited the heavy fixed charges which had to be met by the railroads of Great Britain and France and maintained that the abolition of reparations would leave the German railway system with only a nominal amount of fixed charges. This would enable the German railways to haul German goods at such low rates that British and French manufacturers would be wholly unable to compete with the Germans.

During the two following weeks, almost every phase of European international relations received attention at the conference. The French expressed their willingness that all reparations should be suspended for several years, until normal economic conditions returned, and that at the end of this moratorium the Young Plan should be subjected to radical downward revision. While making this concession they continued to insist that the United States should recognize this generosity to Germany by a parallel effort toward America's war debtors. The Germans finally ceased to urge complete cancellation and offered to pay a lump sum in final settlement. They attached to this, however, the political condition that the payments should not be made dependent upon American debt cancellation and should not be construed as an admission by Germany of war guilt as stated in the Treaty of Versailles.

On July 4 the negotiations received a new impetus when Foreign Minister Grandi of Italy submitted a note of his government urging that "cancellations be applied equally to all European powers, creditors and debtors, of reparations and war debts." The powers at Lausanne were urged to "take their full share of the responsibilities, sacrifices, and risks called for by the gravity of the situation." The Italians, realizing that they would collect little or nothing from Germany, were anxious to assure themselves that they would never be called upon for further payments on their British debt.

In the meantime, the injection by the Germans of the po-

litical issue of war guilt into the proceedings produced a deadlock. The French flatly refused to link political and financial questions, and the British sided with them, regarding the war-guilt issue as something to be decided later. There was also disagreement over the amount of the final payment. The creditor powers at first fixed the sum at 4,000 million reichsmarks ($952,000,000), payable in bonds which were to be marketed after conditions became favorable. The Germans made a counter-offer of 2,000 million reichsmarks ($476,000,000), and it was encouraging to their creditors that they were willing to pay something after all. The matter remained in this trading stage for four days. A final agreement was reached on July 8. It provided for:

1. A final payment by Germany of 3,000 million reichsmarks ($714,000,000), which was to be placed in a general fund for European reconstruction.

2. An issue of 5 per cent bonds, guaranteed by the Reich, to cover this amount. These bonds were to be issued at 90 and not less than three years nor more than fifteen years after 1932.

3. The deposit of these bonds in the Bank for International Settlements and their sale only when Germany's economic situation made it practicable.[15]

An agreement with the Germans became possible when they consented to drop the war-guilt issue. They had at least carried their point by implication when the creditor governments agreed to wipe out reparations, for it was only upon war guilt that the claim for reparations was founded. The preamble of the agreement also gave some promise that the Germans might hope for future concessions to appease their sensibilities. "The signatory powers," it said, "do not claim that the task accomplished at Lausanne, which will completely put an end to reparations, can alone assure that peace which all nations desire, but they hope that an achievement of such significance and so arduously attained will be understood and appreciated by all pacific elements in Europe

[15] *Final Act of the Lausanne Conference*, Cmd. 4126.

and the world and that it will be followed by fresh achievements."

4. *The Political Settlement at Lausanne*

The agreement with Germany was made public on July 8. On the 13th it became known that underlying the agreement there were two political understandings.

A. *The Gentlemen's Agreement*

One of these referred to the American war debts and was known as the Gentlemen's Agreement. It was an arrangement initialed on behalf of Great Britain by Mr. Neville Chamberlain, on behalf of France by M. Édouard Herriot, on behalf of Italy by Signor Antonio Mosconi, and on behalf of Belgium by M. Jules Renkin. The text was as follows:[16]

> The Lausanne Agreement will not come into final effect until after ratification as provided for in the Agreement. So far as the Creditor Governments on whose behalf this *Procès-Verbal* is initialed are concerned, ratification will not be effected until a satisfactory settlement has been reached between them and their own creditors. It will be open to them to explain the position to their respective Parliaments, but no specific reference to it will appear in the text of the agreement with Germany. Subsequently, if a satisfactory settlement about their own debts is reached, the aforesaid Creditor Governments will ratify and the agreement with Germany will come into full effect. But if no such settlement can be obtained, the agreement with Germany will not be ratified; a new situation will have arisen and the Governments interested will have to consult together as to what should be done. In that event, the legal position, as between all the Governments, would revert to that which existed before the Hoover Moratorium.
>
> The German Government will be notified of this arrangement.
> July 2, 1932.

The fact that this document had been held secret for nearly two weeks provoked violent criticism, especially in the United States, where it was widely held to constitute a

[16] *Further Documents Relating to the Settlement Reached at the Lausanne Conference*, Cmd. 4129.

"united front" by the European debtors against the American creditor. So much suspicion arose from the secrecy which surrounded the origin of the agreement, that President Hoover felt called upon to make public a letter which he had written to Senator Borah, Chairman of the Senate Committee on Foreign Relations, stating the attitude of the Administration. In this letter the President said:

> Our people are, of course, gratified at the settlement of the strictly European problem of reparations or any of the other political or economic questions that have impeded European recovery. Such action, together with the real progress in disarmament, will contribute greatly to world stability.
>
> I wish to make it adequately clear, however, that the United States has not been consulted regarding any of the agreements reported by the press to have been concluded recently at Lausanne and that of course it is not a party to, nor in any way committed to, any such agreements.
>
> While I do not assume it to be the purpose of any of these agreements to effect combined action of our debtors, if it shall be so interpreted, then I do not propose that the American people shall be pressed into any line of action or that our policies shall be in any way influenced by such a combination, either open or implied.

The confusion which followed the publication of the Gentlemen's Agreement was augmented by the conflicting interpretations offered by spokesmen of the French and British governments. The Havas News Agency, a French concern, reported on semiofficial authority that Premier Herriot had told the Finance Commission of the Chamber of Deputies that under this agreement neither Great Britain nor any of the debtors signing the instrument could effect a separate debt settlement with the United States without consulting France.[17] This report was never authoritatively denied, and it was received with such displeasure in the United States and with so much misgiving in London that M. Herriot promptly reinterpreted the agreement and declared that it would merely "prevent any single debtor of the United States from

[17] *New York Herald Tribune*, July 16, 1932.

making a new arrangement without the consent of the others."[18]

Mr. Chamberlain about the same time created further bewilderment. In endeavoring to prove that the agreement was not intended as a "united front" against the United States, he informed the House of Commons on July 11 that the Lausanne delegates had been in touch with American representatives, and that consequently there was no reason to think that the proceedings at the conference would have "unfortunate results." When this statement brought official denials from Washington, he declared that his remarks had been misunderstood and that he "had no intention of suggesting that representatives of the United States approved, either tacitly or explicitly, what was done in the Lausanne proceedings.[19]

The European diplomats by their maladroitness thus succeeded in enveloping an entirely legitimate transaction in an atmosphere of mystery. The only mysterious thing about the agreement was their own method of dealing with it. Informed opinion in the United States was not greatly dismayed or astonished at its content, though it recognized that the project had been presented in a manner so bungling as to leave it open to the worst possible construction. But apart from annoyance at the manner of presentation, the American view was that the agreement contained no promises of action which in the nature of things would not have been taken without it. It was obvious that the debtor powers would in one way or another have to reach some common understanding if they were to avoid the danger of becoming rival supplicants before their common creditor. The agitation in the United States quickly died down when the good effects of the Lausanne settlement were made manifest by heavy European buying of American securities, and the incident of the

[18] *New York Times*, July 16, 1932.
[19] *New York Herald Tribune*, July 12 and 15, 1932.

Gentlemen's Agreement was never referred to during the Presidential campaign.

B. *The Accord of Confidence*

There was, however, another agreement reached at Lausanne, in this case between Great Britain and France, which had the appearance of much greater consequence to the future of European politics. It became known as the Accord of Confidence and it was published on July 13, 1932, in the form of a declaration, which read as follows:[20]

In the declaration which forms part of the Final Act of the Lausanne Conference the signatory Powers express the hope that the task there accomplished will be followed by fresh achievements. They affirm that further success will be more readily won if nations will rally to a new effort in the cause of peace, which can only be complete if it is applied both in the economic and political sphere. In the same document the signatory Powers declare their intention to make every effort to resolve the problems which exist at the present moment or may arise subsequently in the spirit which has inspired the Lausanne Agreement.

In that spirit His Majesty's Government in the United Kingdom and the French Government decided themselves to give the lead in making an immediate and mutual contribution to that end on the following lines:

1. In accordance with the spirit of the Covenant of the League of Nations they intend to exchange views with one another with complete candor concerning, and to keep each other mutually informed of, any questions coming to their notice similar in origin to that now so happily settled at Lausanne which may affect the European régime. It is their hope that other Governments will join them in adopting this procedure.

2. They intend to work together and with other Delegations at Geneva to find a solution of the Disarmament question which will be beneficial and equitable for all the Powers concerned.

3. They will coöperate with each other and other interested Governments in the careful and practical preparation of the World Economic Conference.

4. Pending the negotiation at a later date of a new commercial

[20] *Declaration Issued by His Majesty's Government in the United Kingdom and the French Government Regarding Future European Co-operation*, Cmd. 4131.

treaty between their two countries they will avoid any action of the nature of discrimination by the one country against the interests of the other.

The heart of this declaration was the agreement of Great Britain "to exchange views" with France in a spirit of "complete candor" on "any questions" which were "similar in origin" to those settled at Lausanne. This was taken in France to mean that Great Britain would work in consultation with France on all questions pertaining to the liquidation of the war, and it was hailed in France as signifying the resumption of a relation not unlike the old *Entente Cordiale.* In this accord M. Herriot hoped he had found the essential guaranty of security that France had been seeking since the end of the war—that is to say, a promise by Great Britain that France would not be left in isolation to defend the Versailles system which embodied the existing constitution of Europe.

When the war ended in 1918, the old European system had been destroyed. The Russian, the Austrian, and the Turkish empires had disintegrated as a result of defeat in the field and of revolution at home. In place of these three ancient sovereignties, there were left a large number of new nations which the Allies had encouraged in their demand for independence. The German Empire had been more or less forcibly transformed into a republic, and it was in a military and economic sense prostrate. Thus, when the victors assembled in Paris, they were committed to the independence of the new nations and were in a position to dictate terms to Germany.

The Versailles settlement had three main elements. It fixed the frontiers of a new Europe. It imposed upon Germany a huge indemnity; it dismembered German territory, going so far as to leave a part of Germany physically detached from the rest; and it deprived Germany of control over her own armaments. Finally, the Versailles settlement set up the League of Nations as an agency, not merely for the general

maintenance of world peace, but also for the correction of errors and injustices in the peace settlement.

It was evident from the first that this settlement could be enforced only if the victors resolutely insisted upon it. It was not a self-executing settlement resting upon general consent or upon a natural balance of power. It was a dictated peace, which called for continual pressure to exact the reparations and for a long vigilance backed by overwhelming power to keep the vanquished, particularly Germany and Hungary, from moving to recover some of their lost territory. It was no less evident that the League could hope to exert a healing and modifying influence only if it had the authority of all the principal powers and the general confidence and affection of all the peoples.

The abrupt withdrawal of the United States from European affairs knocked away one of the chief supports of the whole settlement and left the burden of enforcement upon France and Great Britain. It soon transpired that Great Britain was unwilling to carry this burden, which had been more than doubled for her by the American withdrawal, and a very large part of the diplomatic history of the post-war years was concerned with the gradual retreat of the British from the Versailles régime and the development of their open opposition to its continuation.

Thus France had been left alone. She was the only great power committed to the Versailles system. For more than ten years France, by a series of alliances with the new states, had maintained the territorial arrangements and insisted upon the preservation of reparations and German disarmament. But as France became more and more isolated, Germany became more and more rebellious. In her revolt against the Versailles system, Germany had the support of experience, in that it was demonstrated that reparations were harmful to all of Europe. Germany had also the support of Great Britain and Italy, who openly avowed their opposition to what they called the French domination of Europe. This

domination was, of course, simply the French attempt to execute the treaty which Great Britain, Italy, and the United States had helped her to impose.

At the time of the Lausanne conference these conditions had produced what amounted to a division of Europe into two coalitions: the one a highly organized French coalition insisting upon the *status quo*, the other a loose coalition composed of Germany, Italy, Great Britain, and the dissatisfied nations that insisted on revision. The farseeing realized that there would be supreme danger in this alignment if it was allowed to harden. For then trouble between Germany and Poland, or between Hungary and Rumania, would involve the whole continent. Moreover, the fact that popular sympathies were becoming so intense for or against revision meant that wild men would feel themselves encouraged to undertake adventures. There was war talk in Europe in 1931–32. While no one seriously believed that war was imminent, the European did believe that they were on the steep and slippery incline which would eventually lead to war. It was this belief that withered with hot blasts of suspicion every measure of economic reconstruction and every essay in the limitation of armaments.

This was the problem that Messrs. Herriot and MacDonald took in hand at Lausanne. The French knew when they went to Lausanne that the reparation system was finished and had to be abandoned. It had taken them a long time to realize it. But they had realized it and they had ceased to count upon collecting money from Germany. There were two things that they did care greatly about. One, and this was the less important of the two, was that they should obtain the best possible terms on the war debts owing the United States; this meant in practice that they should not be abandoned by the British, who had a stronger theoretical case for revision. The other matter which worried them at Lausanne was infinitely more important than the war debts. It was whether, in abolishing so central a part of the Versailles system as

reparations, they were not unsettling the whole post-war constitution of Europe. M. Herriot's problem at Lausanne was how to give up reparations without undermining the territorial constitution of Europe. For he knew that, having got rid of reparations, the Germans would next demand equality of armaments, and then proceed to seek a revision of frontiers.

By midsummer of 1932, French opinion was reconciled to the abandonment of reparations and to the impossibility in the matter of armaments of trying to treat Germany permanently as a prisoner out on parole. These two features of the Versailles régime they were prepared eventually to abandon. But on the frontiers they were adamant. Their position, as we understand it from our own inquiries, was substantially this: "Granting that the Polish Corridor is a monstrosity, the lesson of history is that vital frontiers have never been altered in Europe except by war. The Poles say they will fight to retain the Corridor, and at present they certainly mean it. We have no particular affection for the Corridor but we have a horror of another war. So our position is that to preserve peace we must not open up this discussion of territorial questions."

The significance of the Lausanne settlement, particularly the Accord of Confidence between Great Britain and France, was that it gave the French the right to believe that Great Britain would make no move that directly or indirectly reopened the frontier question. Only with that assurance could M. Herriot make the French people feel secure in abandoning the right to reparations and in proceeding in the near future to a reduction of armaments with equality of legal status for Germany. In other words, by the Accord of Confidence, the French were able to concede a large and definite revision of the Versailles system without throwing everything into the melting pot.

Therefore, the heart of the Lausanne settlement was not the ending of reparations but the resumption of Franco-

British coöperation in European diplomacy. As to reparations, Lausanne had merely to recognize an accomplished fact, but in the Accord it pointed to the possibility of a new chapter in the history of Europe.

The British did not take so high a view of the matter. In fact they threw a good deal of cold water on the agreement, but nevertheless they observed it and on the part of France at least there was a noticeable relaxation of the tension. M. Herriot was able to proceed on the premise that the Accord was a sincere and effective partnership which fortified the constitution of Europe by placing at its core the union instead of the rivalry of the two strongest powers. The danger of an alignment of Europe into hostile coalitions appeared at least to be checked and, therefore, the sense of security in France was promoted. There was a general feeling, too, that Europe was better prepared to withstand the shock of a restoration of the old Prussian ruling class than it would have been six months previously, when France and Great Britain were estranged and in a state of diplomatic rivalry.

The Lausanne settlement was received with optimism throughout the world and was hailed as a turning point in the history of Europe.

CHAPTER NINE

THE SECOND POSTPONEMENT

THE outcome of the events recorded in the two preceding chapters brought relief and a renewal of confidence. The deflationary influences arising from the threat to the American dollar had, it was generally believed, been removed. The system of reparation payments, with all that it involved in the way of strain on the monetary mechanism of the world, of distortion of the course of international trade, and of political disturbance, had for all practical purposes been abolished. The Accord of Confidence had given promise of a closer diplomatic understanding between Great Britain and France, and had thus brought at least a semblance of unity when there had been dangerous rivalry between the two most powerful nations in Europe. Progress in these three matters was established between the middle of June and the middle of July, and it was followed by a decided improvement in the commodity and security markets, in the credit system, and to a lesser extent in industrial production.

It is not for us to say how much the summer rally was the direct consequence of these political achievements. Among multitudes of producers there had been a profound readjustment of costs and prices through liquidation and reorganization and economy, which with the long-deferred demands of consumers had created a condition favorable to some resumption of economic activity. But the psychological effect of the Lausanne agreements and of the final conclusion of the work of Congress was unmistakable. Hope displaced fear, and

much of the depression that was subjective in character was for the time being relieved.

1. *The Summer Rally*

About the middle of June two items of news appeared which may be said to mark the turn of the tide in this phase of the depression. On June 15 it was announced that the Bank of France, which had been repatriating its funds for nine months, had completed the transaction, and that all the gold that France could take had been withdrawn.[1] What remained of French deposits were the minimum necessary working balances of ordinary trade. The other item of news dealt with the sudden and sharp advance in the price of live stock, the first important improvement since the onset of the depression. Between the middle of June and the middle of July the price of hogs advanced from $3.45 per hundred pounds to $4.90, a gain of nearly 40 per cent. There were also substantial but less spectacular increases during the early summer in the prices of cattle, sheep, lard, cottonseed oil, hides, tin, petroleum, cotton, silk, refined sugar, cocoa, and coffee.

The announcement that the gold withdrawals had been completed successfully was heralded as evidence that the American dollar was impregnable against external forces like those which had dragged sterling off the gold standard. The fact that basic commodity prices were advancing meant, of course, that if the advance was to continue, the economic depression was ending. For it was universally recognized that the collapse of commodity prices, particularly of the prices of agricultural products and raw materials, was a controlling cause of the world crisis.

After the completion of the French withdrawals and of some others, it was estimated that foreign balances in the United States had been reduced from their peak of 1929 at 3,000 millions to some 600 or 700 millions. Since approxi-

[1] *New York Times*, June 15, 1932.

mately 1,000 millions had been considered necessary for routine financial operations in normal times, the financial markets concluded that the demand for gold was exhausted and that a return flow, particularly since crops were about to move to Europe, might soon be expected.

This expectation proved to be correct, and indeed there was an additional influx of gold owing to the fact that investors in Northern Europe took advantage of the panic prices prevailing and began to buy American securities. From June 15 to the end of September, 275 millions in gold were added to the country's stocks. Simultaneously, hoarded currency, which at one time was considerably in excess of 1,000 millions, was reduced by about 250 millions.[2] This return of deposits from foreign and domestic sources so greatly relieved the strain upon the banks that their position as a whole was radically altered. They were able to reduce their indebtedness at the Federal Reserve banks and at the same time to accumulate excess reserves.

The New York Federal Reserve Bank had already reduced its discount rate from 3 to 2½ per cent. By the end of the summer, what with the return of deposits and the appearance of a surplus of money in the banks, the Federal Reserve authorities could point out that the monetary conditions had finally been achieved which, according to the accepted theory, ought in the course of time to bring about a "reflation" of prices.

The renewal of confidence was reflected spectacularly in the security markets. The average price of 421 common stocks, as computed by the Standard Statistics Company, rose from 34 in June to 35.9 in July, to 53.3 in August, and to 58 in September. This advance practically canceled all the recession in stock prices during the first half of the year, bringing the average back to the level of December and January. It surpassed any previous rise during the depression,

[2] *Federal Reserve Bulletin*, October, 1932, 621.

as well as any of the recoveries that had signalized the end of bear markets in past years.

Bond prices also shared in this upturn, but the advance was naturally more conservative. The rise during July and August, as measured by the Standard Statistics Company's index of 60 selected bonds, amounted to 15 per cent and wiped out all the losses since the previous November. This was especially beneficial to banks, insurance companies, and similar financial institutions whose surplus and reserves had been invested in bonds.

2. *The Rally Checked*

Early in September it became evident that the stock market had overestimated the improvement in the general business situation and had advanced too speedily and too far. The volume of trading, which on a number of days during the rapid upturn had been around four million shares, tapered off and the market operations became largely of a professional character. Prices then reacted, but the market averages at the end of October were still substantially above the low levels reached in mid-July. The *New York Times* average of 50 stocks rose from 33.98 on July 8, when it had touched bottom, to 72.38 on September 8, an upturn of over 100 per cent. By October 10 the average had dropped to 51.63, but by the last day of the month had rallied to 56.32. The recession in September and October still left the averages substantially above the low level of the midyear and at approximately the level prevailing in April.

The first optimism was being tempered more and more by caution. There was no return of the panic and pessimism of the spring and early summer, but there was disappointment at the slowness of the improvement in many of the basic industries. The indices registered only slight recovery. The record of business failures in September was better than at any other time within twelve months. Car loadings by the

middle of October had reached the high point of the year. Employment conditions also were slightly better. Nevertheless such progress as was recorded was proceeding unevenly. There were still reports of poor earnings by corporations during the third quarter and of occasional receiverships, and these tended to dampen enthusiasm.

Broadly speaking, it may be said that despair had largely disappeared and that an undercurrent of hopefulness, rather than of actual confidence, had taken its place. At the same time it was recognized that there were many obstacles blocking the road to recovery, and there were no indications of any definite action directed at their removal. Most of the constructive legislation enacted by Congress at the recent session had taken the form of new mechanisms for supplying credit with a view to preventing or postponing further troubles rather than to attacking fundamental economic evils.

The public began to realize that the midsummer achievements at Washington and Lausanne were at best a small first installment in the solution of the world's problems. In many parts of the American economy, notably among the producers of agricultural staples, in the mining industry, in railroad transportation, in urban real estate and municipal financing, there were deep disorders which remained to be dealt with. The budget was after all not balanced and the task of bringing it into balance was formidable. American monetary policy showed no likelihood of being able to raise the level of world prices by its own motion.

The barriers to international trade were being raised in almost all countries, and a state of general economic war prevailed in the world. The American debt question hung like a thundercloud over relations between the United States and Europe. No German government had been established that seemed secure, and in its weakness the Ministry of Chancellor von Papen turned toward a foreign policy which greatly disturbed Franco-German relations. The question of

disarmament had reached a dangerous stage. In South America war was threatened at two points and in the Far East the internal difficulties of China and the Manchurian entanglements became aggravated. Finally, in the United States there was the normal hesitation caused by the alarms and commotions of a Presidential election.

3. *A Political Moratorium*

The great majority of these questions required action by governments to settle them. But on the really vital questions, such as political security and disarmament, the readjustment of intergovernmental debts, and the achievement of commercial peace, no further progress was possible without a very considerable change in public opinion. The attempts to deal with these problems had to be postponed until the people were prepared to consent to a solution. Pending this education of opinion, statesmen could only explore the ground privately in the hope of finding formulæ which could ultimately be rendered acceptable to the voters.

In the United States this course of education had itself to be postponed because of the necessity of holding a national election. For the responsible leaders of both parties recognized that an attempt to discuss the major issues of concern to the world could result only in a gross perversion of the facts and the consolidation of ruinous commitments under the stress of partisan appeals for votes. Therefore, by common consent under something in the nature of a gentlemen's agreement, foreign policy, with the exception of the tariff, was not debated in the campaign.

During the early stages of the campaign, it seemed for a time that the truce thus arranged might be broken and that a choice between foreign policies differing at important points might be presented to the country.

The first formal campaign speech of either candidate for the Presidency after the conventions was made by Governor

Roosevelt on July 30. In this address he discussed the platform adopted by his party and gave his own interpretation of its various commitments.[8] When he reached the section on tariffs, he said: "One of the great needs of the world is to set international trade flowing again. The proper procedure is to ascertain all the pertinent facts, to publish them widely, and then to negotiate with each country affected. Trade barriers of all kinds ought to be lowered—not by rule of thumb, but with due regard to safety and justice—lowered, nevertheless, as quickly and as definitely as possible. Policy needs to be dominated by the realities we discover and by the national purposes we seek."

That tariffs are a matter of foreign as well as of domestic policy, Governor Roosevelt clearly recognized. American action in this respect could not be separated "from our other relations with foreign countries; the whole thing ties in together." Here he cited the pledges of his party in favor of the entry of the United States into the World Court "with the pending reservations"; its support of the Pact of Paris, "to be made effective by provisions for consultation and conference in case of threatened violation of treaties"; its advocacy of "international agreement for reduction of armaments"; its pledge "of good faith and of good will in financial obligations"; and its opposition to "cancellation" of the war debts.

"This problem of the debts is complex," said Mr. Roosevelt. "Its solution has, however, been brought measurably nearer by the recent results at Lausanne. Great Britain, France, and Germany have at last agreed among themselves concerning reparations. The danger now is that they may turn a united front against us. This comes, I am convinced, not so much from the debts they owe us, as from our barriers against their trade, which make the problem so difficult. The debts will not be a problem—we shall not have to cancel them—if we are realistic about providing ways in which

[8] *New York Times*, July 31, 1932.

payment is possible through the profits arising from the rehabilitation of trade. The Republican platform said nothing at all about this; but their position has been the absurd one of demanding payment and at the same time making payment impossible. This policy finally forced a moratorium, as it was bound to do. Our policy declares for payment, but at the same time for lowered tariffs and resumption of foreign trade which open the way for payment."

Two weeks after this address by the Democratic candidate, Mr. Hoover made his speech accepting the Republican nomination. He declared himself "squarely for the protective tariff" and "against the proposal of 'a competitive tariff for revenue,' as advocated by our opponents." Of the war debts, he said: "My views in opposition to cancellation . . . are a matter of detailed record in many public statements and a recent message to the Congress.[4] They mark a continuity of that policy maintained by my predecessors. I am hopeful of such drastic reduction of world armament as will save the taxpayers in debtor countries a large part of the cost of their payment to us, and if for any particular annual payment we were offered some other tangible form of compensation, such as the expansion of markets for American agriculture and labor, and the restoration and maintenance of our prosperity, then I am sure our citizens would consider such a proposal. But it is a certainty that these debts must not be canceled or these burdens transferred to the backs of the American people."[5]

Mr. Hoover thus opposed any reduction of existing tariffs, but suggested the possibility of remitting "particular" payments on the war debts in return for larger purchases by Europe of American goods. Mr. Roosevelt took a contrary position, favoring "quick and definite" lowering of tariffs and suggesting a method of easing payment of the war debts through larger purchases by Americans of European goods.

[4] *The United States in World Affairs, 1931*, 349.
[5] *New York Times*, August 12, 1932.

Had the debate continued on these lines, and had the two candidates amplified these early statements on the war debts, American opinion would have been focused more clearly on the alternatives before the United States as a creditor nation which had been seeking to maintain a favorable trade balance by means of protective tariffs. However, as the campaign progressed, the war debts played a smaller part in the discussion. Mr. Roosevelt's proposal was criticized by Senator Moses of New Hampshire, who estimated that "the debtor countries would have to sell $3,000,000,000 of additional goods in the American market," in order to obtain "profits from which the debts could be paid."[6] The proposal was criticized also by Secretary Mills in a campaign address at Portland, Maine, on the ground that it would compel the American public to shoulder the burden of the debts.[7] Mr. Roosevelt did not defend his position against this criticism. Nor did Mr. Hoover develop his own plan in greater detail, though he referred to it again in campaign speeches at Des Moines, Cleveland, and Springfield, Illinois.[8]

Of the tariff much more was said; but here too the sharp edge of disagreement in the early statements of the candidates was subsequently blurred. Mr. Roosevelt continued to attack the Hawley-Smoot Act; he continued to champion the proposal for reciprocal tariffs with other nations, endorsed by his party in its Chicago platform. But he coupled his advocacy of this plan with a declaration in favor of tariffs still high enough "to give the American producer an advantage over his foreign competitor."[9] Speaking before a farm audience at Sioux City in the course of his Western tour,[10] he insisted that it was unfair "to stigmatize the Democratic party as a free-trade party." The Democrats would not aban-

[6] *New York Herald Tribune*, August 4, 1932.
[7] *New York Times*, September 11, 1932.
[8] *Ibid.*, October 5, 16, November 5, 1932.
[9] *Ibid.*, September 30, 1932.
[10] *Ibid.*

don tariff protection; they would go no further than to bring duties down "as low as the preservation of American industry will permit." Such revision would "injure no legitimate interest." It would preserve intact the theory of a tariff "which will put the American producers on a market equality with their foreign competitors—one that equalizes the difference in the cost of production." Such a tariff would differ only in degree and not in principle, in practice and not in theory, from the protective tariff favored by the Republican party. This Mr. Roosevelt frankly recognized: "I appreciate that the doctrine thus announced is not widely different from that preached by Republican statesmen and politicians."

By the end of September both candidates were thus pledged to a protective tariff at least high enough to equalize "production costs" at home and abroad and to prohibit competing imports. Mr. Roosevelt continued to favor reciprocal treaties and to advocate the reduction of existing schedules wherever this could be accomplished without injury to any "legitimate interest"; but at least in the agricultural schedules he saw no opportunity whatever for reduction. "It is absurd to talk of lowering duties on farm products," he said in an address at Baltimore, late in the campaign.[11] "I know of no effective excessively high tariffs on farm products. I do not intend that such duties shall be lowered."

On the Republican side Mr. Hoover expressed the opinion that any change in existing duties should be toward higher rather than toward lower levels. At Des Moines he said: "The Republican party originated and proposes to maintain the protective tariff on agricultural products. We will even widen that tariff further, where necessary to protect agriculture."[12] At Charleston, West Virginia, in the closing weeks of the campaign, he said that "due to depreciated currencies in foreign countries, the tariffs have been seriously impaired

[11] *New York Times*, October 26, 1932.
[12] *New York Herald Tribune*, October 5, 1932.

lately in a number of commodities."[13] Two days later he sent a letter to the Chairman of the Tariff Commission on the subject of depreciated currencies, though the commission had already considered the question earlier in the year and had opposed an upward revision of existing rates.[14] In this letter he urged a report "at the earliest possible moment" on means of affording "all possible relief to unemployment" in communities whose welfare might be jeopardized by competitive goods from countries which had abandoned the gold standard.[15] At Cincinnati he again called attention to the question of depreciated currencies, and asserted that "one competitor—that is, Japan, whose currency has depreciated 40 per cent—is today shipping goods into your city in competition with your industries. In Japan the standard of living has been lowered to the extent that the power of their workmen of purchasing bread and butter is just one-eighth that of your workmen in this city."[16]

As far as tariffs were concerned, the campaign thus ended with a declaration by both candidates in favor of some form of the protective-tariff system. Both accepted as desirable the doctrine of duties based on production costs. Both agreed that existing rates on agricultural products could not be reduced. They differed chiefly on the question of applying the theory of production costs fairly and effectively to the restriction of industrial imports.

5. *Domestic Problems Foremost*

While early differences over the tariff were thus narrowed considerably as the campaign progressed, and while the war debts failed to play a part of much importance in the later stages of the debate, no other question of foreign policy was brought prominently into the discussion. We have noted that in his first campaign address Mr. Roosevelt commended the

[13] *New York Times*, October 23, 1932.
[14] Cf. Chapter II.
[15] *New York Times*, October 25, 1932.
[16] *Ibid.*, October 29, 1932.

position taken by his party on American adherence to the World Court, on international agreements for the reduction of armaments, and on implementing the Pact of Paris "by provisions for consultation and conference in case of threatened violation of treaties." In his speech accepting the Republican nomination, Mr. Hoover commended similar declarations in his own party's platform on these three points. He also called attention to the plan he had recently submitted to the international conference on armaments: "We have made concrete proposals at Geneva to reduce the armaments of the world by one-third. It would save the taxpayers of the world over a billion a year."[17] On the question of Manchuria he said: "I have projected a new doctrine into international affairs, the doctrine that we do not and never will recognize title to possession of territory gained in violation of the peace pacts which were signed with us."[18]

In early campaign addresses both candidates thus outlined their views on certain large questions of foreign policy. But at no later stage did either candidate add substantially to the opinion then expressed. Neither Mr. Roosevelt nor Mr. Hoover discussed at length his party's position on the Pact of Paris, the World Court, or other instruments of coöperation by the United States in establishing conditions of political security. Aside from the tariff, the issues on which the campaign centered were exclusively domestic questions, such as prohibition, farm relief, public utilities, national finance, currency inflation, and the record of the Democratic House of Representatives.

In the landslide that elected Mr. Roosevelt President of the United States on November 8, questions of foreign policy were of small importance. The interest of the country was

[17] *New York Times,* August 12, 1932.

[18] During the campaign the question of American policy with respect to the Far Eastern situation was discussed by Secretary Stimson in an address before the Council on Foreign Relations in New York on August 8, and in later addresses at Pittsburgh and Philadelphia. Cf. *New York Herald Tribune* August 9, 1932; *New York Times,* October 2, 26, 1932.

focused almost exclusively on domestic issues, and leaders of both parties guided it in this direction in order to avoid impossible commitments concerning our relations with other countries. Little attention was given even to the problem in foreign affairs that lay immediately ahead, the problem arising from the fact that in the month following the election, payment of more than 100 million dollars on the war debts would fall due, in circumstances which made full payment doubtful.

CHAPTER TEN

THE WAR DEBTS

1. *The Shadow of Coming Events*

THOUGH the campaign thus failed to focus much attention on the war debts, it was tacitly assumed by at least part of the electorate that an effort would be made by European nations to reopen the question, once the campaign had ended.

There was abundant evidence to support this assumption. President Hoover had warned Congress in December of the previous year that some of the governments indebted to the United States would be "unable to meet further payments to us in full, pending recovery in their economic life." He had insisted that it was "useless to blind ourselves to an obvious fact" and asserted that it would be "necessary in some cases to make still further temporary readjustments."[1] The reply of Congress had been its resolution repudiating the suggestion that the war debts "be in any manner canceled or reduced."[2] But as time passed and the third year of the depression lengthened, it became apparent both that no real recovery in the debtor nations had taken place and that no change had occurred in their conviction that war debts were closely linked with reparations. On the contrary, the depression had deepened steadily during the first six months of 1932; and, as we have noted, the agreements reached at Lausanne on reparations were made to depend for their ratification on "a satisfactory settlement" of the war debts due to the United States.

[1] Cf. *The United States in World Affairs, 1931*, 349–359.
[2] Cf. Chapter I.

This theory of debts and reparations as inseparable parts of a single problem was emphasized on several occasions during the course of the Presidential campaign in the United States. On July 10 Premier Herriot of France said in an interview with the newspaper *L'Intransigeant:* "What must be clearly understood is that the link is now clearly established between the settlement of reparations and the solution of the debt problems with relation to the United States. Everything is now subordinated to an agreement with America."[3] A few weeks later it was reported from London that no provision had yet been made for war-debt payments in the supplementary budget which the Chancellor of the Exchequer was then preparing to submit to Parliament.[4] In October an effort on the part of the Nationalists to debate the war debts in the French Chamber of Deputies was defeated by M. Herriot with the aid of his friends in Parliament. The Paris Bureau of the *New York Times* reported: "Not only the Ministry but a considerable section of the Chamber felt that it would be extremely inopportune to hold a debate [on the debts] just before the American Presidential election."[5] In France as well as in the United States the necessity of postponing discussion until the campaign had ended was clearly understood by responsible authorities.

Meantime, a series of events in the summer and early autumn clearly forecast developments which were to take place later in the year. These events began promptly with the expiration of the moratorium on June 30. The first scheduled payment on the war debts after that date was the small sum of $130,000 in principal due from Greece on July 1. On the day before this payment fell due, the Greek government notified the Treasury Department that it would take advantage of a clause in its agreement with the United States permitting it to postpone payment for two and a half years,

[3] *New York Times,* July 11, 1932.
[4] *Ibid.,* September 12, 1932.
[5] *Ibid.,* October 26, 1932.

with interest to accrue on the postponed amount at 4¼ per cent.[6]

A few weeks later, three other small debtors—Poland, Estonia, and Latvia—also notified the Treasury that they would act under similar provisions in their treaties with the United States and would postpone for two years payments of principal due on December 15, amounting to $1,125,000 for Poland, $90,000 for Estonia, and $37,000 for Latvia. The Treasury announced that "in accordance with the terms of the agreement, the amount of principal so postponed will bear interest at the rate of 3½ per cent, payable semi-annually."[7]

Finally, late in September the German government notified the Treasury that it would postpone payment of $7,800,000 due on the 30th of that month on account of war claims and costs of the American army of occupation. Representatives of the German Embassy in Washington explained that their government had been unable to obtain foreign exchange and that other conditions made it impossible to meet the payment due.[8]

By October 1 five of the smaller debtors had thus postponed payments amounting to $9,182,000, and all of the larger debtors had made clear their belief that debts and reparations must be considered *pari passu*. These circumstances explain why it was generally assumed that discussion of the debts would be reopened soon after the Presidential election.

2. *The Exchange of Notes*

Evidence to support this view was not long in making its appearance. On November 10, two days after the national election, the Treasury announced that a payment of $444,920 due to be made by Greece had not been received.[9] This pay-

[6] *New York Times*, July 1, 1932.
[7] *Ibid.*, September 15, 1932.
[8] *Ibid.*, September 29, 1932.
[9] *Ibid.*, November 11, 1932.

ment, unlike the smaller sum due on July 1, was not postponable under the terms of the existing treaties. The failure of the Greek government to tender the amount due constituted the first default on the American war loans.

On the same day the Treasury also announced that the Hungarian government had informed the United States that it did not have the necessary exchange with which to make payment of $40,729 due in principal and interest on December 15.

More important, on the same November 10 it was authoritatively reported that the British Ambassador in Washington had delivered at the State Department a note from his government on the subject of the debts and that the French Ambassador had informed the department that a note on the same subject was on its way from Paris.

These notes were the first of a long series to be exchanged between various debtor nations and the government of the United States. In addition to Great Britain and France, Belgium, Poland, Czechoslovakia, Latvia, and Lithuania sent notes to Washington. These notes are listed in the chronology published in this volume.[10] Here it will be convenient to discuss the subject matter of this diplomatic correspondence under five headings: (*a*) the appeal of the debtor nations for suspension of payments; (*b*) the American reply to this request; (*c*) the plans proposed for facilitating transfer of funds to the United States; (*d*) the appeal of the European nations for reconsideration of the debt agreements; and (*e*) the opinions of President Hoover and of President-elect Roosevelt on the question of how to deal with this request for reëxamination of existing contracts.

A. *Suspension of Payments*

In order to prepare the way for the broader study which they hoped to initiate, seven of the debtor nations requested permission to suspend payments of principal, interest, or

[10] Cf. Appendix IX.

both, due on December 15. On this point the British government argued that while suspension "would in no way affect any ultimate settlement," it was "necessary in order to create conditions favorable to a successful issue of subsequent conversations."[11]

This procedure had been followed in dealing with reparations at Lausanne, and both the British and French notes called attention to the fact.[12] "It is not possible to hope that agreements can be achieved in five weeks [the period between receipt of the first notes and the date of payment] on matters of such vast scope," said the British government. "Confronted last summer with a similar difficulty, the conference of Lausanne found it necessary, in order to allow its work to proceed undisturbed, to reserve during the period of the conference the execution of the payments due to the participating powers." It was hoped that the United States, which had applauded the Lausanne agreement, would recognize this precedent.

A further argument for postponement was provided by the economic situation. To the British government the difficulties of transferring funds under existing circumstances seemed "so great, and would involve such far-reaching reactions, both financial and political, that the resulting doubts and anxieties in regard to the immediate situation would distract the attention of the governments and peoples, when the chief need was an objective and systematic approach to the problem to be solved."[13]

Some of the smaller debtor nations flatly stated that in the turbulent state of international finance at the end of 1932 they lacked means of transferring payment.

B. *The American Reply*

To all debtors seeking suspension of payment, the reply of the American government was, first, that "no authority

[11] Department of State Press Release, December 1, 1932.
[12] Department of State Press Releases, November 14, 1932.
[13] Department of State Press Release, December 1, 1932.

lies within the Executive to grant such an extension" and, second, that "payments of the sums due on December 15 would greatly increase . . . the prospects of a satisfactory approach to the whole question."[14] These opinions were stated in the first American replies to Britain and France, and were repeated in later notes to these powers and to smaller nations seeking suspension of payments.

In a special message to Congress on December 19, the President gave additional reasons which had determined refusal of these requests. He then said that the government had declined to postpone payments due, "as we considered that such action would amount to practical breakdown of the integrity of the agreements; would impose an abandonment of the national policies of dealing with these obligations separately with each nation; would create a situation where debts would have been regarded as being a counterpart of German reparations and indemnities and thus not only destroy their individual character and obligation but become an effective transfer of German reparations to the American taxpayer; would be no real relief to the world situation without consideration of the destructive forces militating against economic recovery; would not be a proper call upon the American people to further sacrifices unless there were definite compensations."[15]

C. *Facilitation of Payments*

While the American government thus opposed suspension, it sought in the case of its largest debtor, Britain, to facilitate the payment which it insisted must be made.

In a statement issued at the White House before the American reply to the first British note was published, Mr. Hoover suggested that "if extraordinary circumstances, such as depreciation of currencies and general fall in world trade, have rendered immediate transfers of this next payment in

[14] Department of State Press Release, November 25, 1932.
[15] Message to Congress, December 19, 1932.

dollars impossible to some nations without losses on both sides," the United States should be willing to "consider a proposal that payments of this installment be made to our account in foreign currencies, transfers to be effected from time to time as the situation of the exchanges permits, of course with guarantees as to the value of such currencies."[16]

This proposal for "blocked payment," to be made in London in British currency, with transfer later to the United States at par, was discussed by the American and British governments, but rejected by the latter. In its note of December 1 the British government said: "The exchange difficulty would remain even if the device were adopted of payment in sterling to a blocked account; for the existence of a large sum awaiting transfer would affect the market almost as seriously as an actual purchase of exchange."[17]

An alternative was then suggested by the American government through diplomatic channels. It was proposed that payment of the installment due on December 15 be made in serial bonds, which would become payable at different maturities but which would be issued in such form as to be marketable on the New York Stock Exchange. This proposal was likewise rejected by the British government, since, in the words of the Chancellor of the Exchequer, it "was not postponement at all," but "merely another way—not a very agreeable way—of making the payment. . . . Therefore, while we appreciated the efforts of the American government to facilitate payment, we did not feel able to take advantage of them. We were obliged to express to it our conviction that suspension alone would overcome the difficulties, and our regret at its decision that it had not been able to recommend this solution to Congress."[18]

In these circumstances, the British government determined to make payment on December 15 in gold. The French

[16] Department of State Press Release, November 23, 1932.
[17] Department of State Press Release, December 1, 1932.
[18] Parliamentary Debates. House of Commons, CCLXXIII, No. 17, December 14, 1932.

government likewise determined to make payment; but after a dramatic debate on the night of December 13 the Chamber of Deputies refused by a vote of 402 to 187 to authorize such action.[19] France thereupon "deferred" payment, and the Herriot Cabinet resigned. On December 15 the United States Treasury published the following figures:

Payments Received	
Great Britain	$ 95,550,000
Czechoslovakia	1,500,000
Italy	1,245,437
Finland	186,235
Latvia	111,852
Lithuania	92,386
Total	$98,685,910

Payments Deferred	
France	$19,261,432
Poland	3,302,980
Belgium	2,125,000
Estonia	266,370
Hungary	40,729
Total	$24,996,511

Five nations were thus in default. Six made the payments due. But the act of making payment in December, 1932, did not in itself signify an intention to continue to comply with the requirements of existing contracts when the next payment fell due in June, 1933. On this point the British Chancellor of the Exchequer said in his address to the House of Commons: "We could not leave our payment to be taken as though we were resuming [after the moratorium] the old system of war-debt payments. We could not leave Congress under any misapprehension as to what our views were about the possibility of continuing such payments in their previous form in the future, and therefore we considered it necessary,

[19] *New York Times*, December 14, 1932.

while informing the United States government of our determination to pay the installment, to intimate at the same time our intention, when discussions on the final settlement began, to put forward our contention that the old régime which was interrupted by the Hoover moratorium can never be revived."[20]

D. *The Request for Revision*

The argument of the debtor nations for revision of this "old régime" was based partly on economic and partly on political grounds. On the first point the notes of the British government placed more emphasis than those of other nations. The second point was the chief concern of the French government and the French Chamber.

Pointing out that payments across exchange, being restricted by tariffs and trade barriers, are essentially different from payments by the taxpayer in his own currency, the British government argued that the burden of the war debts must be judged by comparison, not with the volume of internal revenue, but with the balance of trade. Considered in this light, the transfer of large sums seemed clearly to compel the debtor nations "to augment their export surpluses in order to meet intergovernmental debt burdens" and to diminish their power to purchase goods in the creditor country, "with a consequent fall in prices, depression of industry, and unemployment." It therefore "would not profit a creditor country to collect a few million pounds or dollars, if it thereby perpetuates a world disorder, which reacting on itself, involves losses of revenue many times greater." Conversely, a settlement relieving "the economic machinery of the world by clearing up these intergovernmental payments would be repaid again and again by the contribution it would make to world recovery."

For these reasons the British government "based their re-

[20] Parliamentary Debates. House of Commons, CCLXXIII, No. 17, December 14, 1932.

quest for a reëxamination of the whole situation on the fact that payment of the war debts has in their view been proved to be inconsistent with the present economic organization of the world, and that any resumption of these payments is bound to accentuate the gravity of the present crisis and to compromise fatally all efforts to counteract it."[21]

The French government also discussed the economic implications of the debts; but it dealt at greater length than did the British government with the political aspect of the question. It was on the initiative of President Hoover, the French notes pointed out, that a year's moratorium on all intergovernmental payments had been arranged in 1931. This action "affected directly all existing agreements, and in particular suspended the working of the mechanism which the Young Plan had set up for taking care of the problem of reparations." Furthermore, at the time of his visit to Washington in October, 1931, the French Premier had "agreed with the President of the United States on the terms of a *communiqué,* stating that in the matter of intergovernmental debts a new arrangement, covering the period of the depression, might be necessary, provided the initiative came from the European powers principally concerned."[22] In conformity with this text, "which seems to constitute a novation in equity in the régime of international debts," this initiative was taken.

Within the sphere of reparations where only the European powers were involved, the arrangement provided for had been brought about. Recognition of this fact by the United States now seemed to be an equitable and a necessary sequel. While the French government was "familiar with the formal reservation made at the time of the ratification of the Hoover moratorium by the American Congress, whose prerogatives it fully recognizes," it felt that it "must recall that the ap-

[21] British note of December 1. Department of State Press Release, December 1, 1932.

[22] Cf. *The United States in World Affairs, 1931,* 216.

proval of the French Parliament likewise was subordinated to its own interpretation of the moratorium proposed by President Hoover."[23]

Belief that the United States had in fact acknowledged the relationship between war debts and reparations in proposing the moratorium, and that by this proposal it had broken irreparably Germany's will to pay, was suggested at many points in the French notes and vigorously asserted in the debate in the French Chamber.

The United States rejected this argument that debts had been linked with reparations. On this point President Hoover and President-elect Roosevelt found themselves in agreement at a conference held at the White House on November 22.[24] The notes dispatched by the State Department to Britain and France on the day following this conference insisted that "reparations are solely a European question in which the United States is not involved"; our government had always maintained that the debts "must be treated as entirely separate from reparation claims arising out of the war."[25]

This was a correct statement of the diplomatic position taken by the United States since President Wilson's first statement on the question in 1920. But in point of fact Congress itself had on occasion been forced to recognize the close practical relationship between the two great sets of financial obligations created by the war. Thus, in 1926, in recommending to Congress ratification of the debt-funding agreement with France, the Committee on Ways and Means of the House of Representatives stated in its report that the settlement had been based on an estimate of France's capacity to pay, in the determination of which the principal considerations taken into account were an expected improvement of the general fiscal situation in that country and the fact that

[23] French note of December 1. Department of State Press Release, December 2, 1932.

[24] *New York Times*, November 24, 1932.

[25] Department of State Press Releases, November 25, 1932.

"the Dawes payments from Germany should, if all goes well, aggregate this year approximately 3.5 billion francs."[26]

Nevertheless, since the United States had never formally recognized the connection between debts and reparations, and since it was not prepared to do so now, the political argument for revision of the existing agreements was rejected. The economic argument met with more sympathetic consideration. In its replies to the debtor nations, the State Department agreed that the burden of the debts had been "greatly increased . . . in the present conditions of world-wide depression, accompanied by a sweeping fall of prices." It also agreed that the debts "have a very definite relationship to the problem of recovery, in which both the British [or French] and the American people have so vital an interest." It agreed, moreover, that it was desirable "to survey the entire situation and to consider what means may be taken to bring about the restoration of stable currencies and exchange, the revival of trade, and the recovery of prices."[27]

E. *Method of Review*

In such a survey, both President Hoover and President-elect Roosevelt believed that it would be desirable to deal individually with each debtor nation. Mr. Hoover insisted that "the United States government from the beginning has taken the position that it would deal with each of the debtor governments separately, as separate and distinct circumstances surrounded each case." Mr. Roosevelt said: "In dealing with the debts each government has been and is to be considered individually, and all dealings with each government are independent of dealings with any other debtor government."[28]

In the State Department's notes, this theory of separate

[26] *Combined Annual Reports of the World War Foreign Debt Commission*, 267.

[27] American notes of December 7 and 8 to Great Britain and France. Department of State Press Releases, December 8, 9, 1932.

[28] *New York Times*, November 24, 1932.

treatment led also to certain differences in treatment. The first reply by the American government to Britain began with this statement by Secretary Stimson: "I fully appreciate the importance of the proposal contained in your note of November 10 and the seriousness of the situation upon which it is predicated."[29] In the note delivered to the French Ambassador on the same day, the second half of this sentence did not appear. France was accordingly invited to believe that the United States did not recognize in her case a situation comparable in "seriousness" with that of England. Doubtless this reflected American opinion. But at this point, as at others, the State Department drew distinctions in the case of different debtors, not after completion of the survey which it favored, but before this study was begun. Discriminations which thus seemed to indicate less favorable treatment for France than for Britain may have helped to shape the opinion of the French Chamber in favor of "deferring" payment.

While Mr. Hoover and Mr. Roosevelt agreed on the desirability of separate negotiations with each debtor, they disagreed on the question of how these negotiations should be conducted. Mr. Hoover pointed out that in the matter of the war debts Congress had always "insisted upon participation in initiation of negotiations and in any ultimate decisions." He therefore proposed to recommend "the creation of an agency to exchange views" with governments seeking revision of their debts. This agency would "report to Congress" such recommendations as it might choose to make.[30]

Mr. Roosevelt held a different opinion. He believed that an adequate agency for discussion of the debts was already provided by the regular diplomatic service of the government. In his opinion, "no action by the Congress has limited or can limit the constitutional power of the President to carry on diplomatic contacts or conversations with foreign

[29] Department of State Press Release, November 25, 1932.
[30] White House Press Release, November 23, 1932.

governments. The advantage of this method of maintaining contacts with foreign governments is that any one of the debtor nations may at any time bring to the attention of the government of the United States new conditions and facts affecting any phase of its indebtedness."[81] Mr. Roosevelt thus proposed to restore the traditional American system in which the executive branch of the government initiates negotiations with foreign governments on its own responsibility and the legislative branch passes on concrete proposals based on ascertained facts.

Since responsibility for a decision at this time rested with Mr. Hoover, rather than with Mr. Roosevelt, negotiations with the debtor nations would doubtless have been begun through the agency of a new Congressional commission, had Congress been willing to coöperate in such an undertaking. But by the time Congress reconvened, sentiment in both houses against any reconsideration of the debts was unmistakable. The President was obliged, therefore, to abandon his plan for a Congressional commission and to fall back upon an alternative plan for a commission which he himself would appoint, with certain members of Congress included in its personnel.

Since he believed that this commission could not complete its work before the expiration of his term, and since he thought continuity of policy was desirable, the President sought, through an exchange of telegrams, to persuade Mr. Roosevelt to coöperate with him in selecting members for the new agency which he proposed to constitute. To this request, Mr. Roosevelt replied that he could not accept such responsibility before entering office and that he still believed a satisfactory medium for negotiations was provided by the existing diplomatic service. He suggested, however, that for purposes of "preliminary exploration" the President appoint such a commission as he had in mind, "making it clear that none

[81] *New York Times*, November 24, 1932.

of these representatives is authorized to bind this government as to any ultimate policy."[32]

Here the exchange of telegrams between the President and his successor ended, with a brief statement by the former which suggested that he had gone as far as he could go. The swift sequence of events during the six weeks between November 10 and December 23 had brought an avalanche of notes and a long series of statements. It had shown that the United States was unwilling to waive the December payments and that in the face of this refusal five debtors felt it necessary or desirable to default. It had revealed a willingness on the part of the American government "to survey the entire situation." But owing to a disagreement over methods of review, the initiation of this survey seemed at least temporarily to be bogged.

3. *The Drift of American Sentiment*

It is outside the scope of our narrative to follow the discussion of the war debts into the new year. Within the limits thus defined, two major developments must be recorded. The first was the announcement by the European nations of their intention to seek a readjustment. This we have already noted. The second was the change in American sentiment which made itself felt in 1932, as an influence likely to play an increasingly important part despite the suspicion and hostility of Congress.

The nature of this change in sentiment can best be suggested by considering the temper of the country on the subject of the war debts a few years earlier. In August, 1926, the first plea for a revision of the debt agreements by an American prominent in public life was made by Mr. Newton D. Baker. In a long and carefully argued statement, Mr. Baker insisted that the United States needed above all else "a confident, prosperous, and peaceful world as a field for its industrial and commercial operations." This condition could

[32] *New York Times*, December 23, 1932.

not be brought about, he felt, "so long as we continue to exact payments up to the capacity of the debtors to pay." The settlement with England, "instead of being a magnificent achievement," had been "a magnificent disaster." It had set a precedent impossible to follow in the case of other nations and had therefore compelled the United States to discriminate between different debtors and to ignore the fact that all the debts "could be paid only in goods or the proceeds from the sale of goods." Neither "in morals nor in a long view of its own best industrial and commercial interests" was the United States justified in pursuing its present policies. In Mr. Baker's opinion, the time had come "when these questions, including the British settlement, ought to be reopened. . . . This should be done at a round-table, where a representative of the United States should be authorized to speak with authority and to demonstrate to the rest of the world that America's interest is not in dollars, but in a reconstructed international order, with as much as possible of the grief of the World War swept into oblivion and the great industrial nations of the world free to start afresh."[33]

Public reception of this statement showed how little approval, and what little interest, a proposal for revision of the debts could stimulate in 1926. No direct comment on Mr. Baker's proposal was made by the Coolidge Administration, then in office; but "those close to the President" pointed out "that Mr. Baker had specialized in lost causes," and they "attached little importance to his new move."[34] Treasury officials were reported as not interested. Mr. Ogden L. Mills, then a member of the House of Representatives, declared that "whatever motives lie back of the statement of Mr. Baker, the immediate result of his words is to make it harder for us to help Europe get on its feet."[35] In an editorial entitled "A Visionary Summons," an Administration news-

[33] *New York Times*, August 30, 1926.
[34] *New York Herald Tribune*, August 31, 1926.
[35] *Ibid.*, August 31, 1926.

paper, the *New York Herald Tribune*, found in Mr. Baker "a victim of false idealism," "carried away by a flighty emotionalism." "There can be no moment less propitious for an American to attack the refunding policy and its successful working out and to demand wholesale cancellation."[36] In Mr. Baker's own party, Senator Harrison, then on the spot in Paris, described cancellation "as a gross betrayal" and charged that Americans who favored such action were "delaying economic readjustment."[37]

An equally unfavorable reception met a similar proposal for reconsideration of the debts, advanced in December of the same year by forty-two members of the Faculty of Political Science of Columbia University. These gentlemen argued that the existing settlements were "unsound in principle," since they were based on a formula of "capacity to pay" which was "difficult if not impossible of just application in the case of debts so vast as to reach over two or three generations." They believed that "for the unfair and inappropriate principle of capacity to pay" it was desirable to substitute a policy which aimed at "promoting the future peace and prosperity of the world," with a frank recognition that "our debt settlements are part and parcel of the whole network of the settlements between the other powers."[38] This appeal aroused little interest. Senator Smoot of Utah, a member of the World War Foreign Debt Commission, described it as a "publicity effort" which would achieve no useful purpose: "Like so many good-intentioned people, the Columbia professors, instead of accomplishing the benefits which they seek to confer, are actually doing harm to those they say they would help. What Europe needs is certainty."[39]

In contrast to the indifference and hostility which thus met any proposal for revision in 1926, we find in 1932 an active movement in favor of reopening the question of the debts

[36] *New York Herald Tribune*, August 31, 1926.
[37] *New York Times*, September 1, 1926.
[38] *Ibid.*, December 20, 1926.
[39] *Ibid.*, December 22, 1926.

and reëxamining the terms of the agreements. The most notable characteristic of this movement was the diversity of the groups participating in it. The General Conference of the Methodist Episcopal Church approved a report urging the American government "to arrange a new settlement of the war debts, based upon the present economic situation, upon drastic reduction of armaments and of military expenditures."[40] The National Association of the Mutual Savings Banks called for the "immediate appointment of a commission to negotiate with foreign countries for an equitable adjustment of the debts due to the United States on the basis of active coöperation on the part of debtor governments in the stimulation of international trade between them and the United States."[41] The master of the farmers' National Grange suggested a period of postponement of interest charges, during which the debtor nations would be given a "credit of from 10 to 20 per cent debt reduction on all purchases of agricultural products in the United States that can be moved at a price which will allow a marginal profit to the producer."[42] A committee representing seven of the Railway Brotherhoods submitted to the President a plan for a twenty-five-year moratorium, in order to stimulate American foreign trade.[43]

The last two proposals caught up a suggestion made by ex-Governor Alfred E. Smith, in an address at the Jefferson Day dinner of the Democratic party: "Let us say to the nations of Europe which owe us money that we will forget all about it for twenty years, and not only will we do that, but we will write off as paid each year 25 per cent of the gross value of American products which they buy from us. . . . This will help the farmer; it will help the mill-owner; it will help the manufacturer; it will help the railroads and the transportation industries and in turn help all the various

[40] *New York Times*, May 24, 1932.
[41] *Ibid.*, May 21, 1932.
[42] *Ibid.*, November 7, 1932.
[43] *Ibid.*, May 14, 1932.

lines of activities that are dependent upon the railroads. I assert that this is a far better way to restore trade than the present method of sitting idly by, clamoring for the payment of debts we know cannot be paid, and thereby losing for the farmers and manufacturers and workingmen of the United States more billions of dollars than the whole European debt."[44]

The movement in favor of some fundamental change in the status of the debts was joined in 1932 by other party leaders whose opinion carried weight. In an address in Washington during the early weeks of the Presidential campaign, a statesman whose influence had long been cast on the side of American isolation and against "internationalism" declared: "We are compelled to consider these international problems not as things incidental or distant, but as things which reach down to and affect for better or for worse the welfare of the man on the farm, stunned by the startling and persistent fall of prices, the laborer seeking work, or the merchant waiting for buyers of the goods on his shelf." This spokesman was Senator Borah; and of the war debts he said: "There can be no reason for urging a reduction or cancellation of these debts other than that it would be in the interest of the people of the United States to do so. Upon that theory, and that alone, it seems to me, is the subject open to discussion. Will reduction or cancellation bring to the people of the United States an equal or a greater benefit than the amount which they may collect from the debts? Will such a course open foreign markets for the products of the farm and the factory, cause the price level to rise, put an end to unemployment, and thaw out the frozen credits of the banks? I entertain the belief that the cancellation of the debts in connection with, and as part of, a program including the settlement of the other war problems, would have the effect above indicated."[45]

[44] *New York Times,* April 14, 1932.
[45] *New York Herald Tribune,* July 24, 1932.

Among the "other war problems," Mr. Borah mentioned reparations, armaments, and tariffs.

4. *Arguments for and against Revision*

To this extent the change in American sentiment between 1926 and 1932 was unmistakable: advocates of revision were no longer members of a wholly insignificant minority, powerless to obtain serious consideration of their opinions. A vigorous debate was now in progress between large numbers of Americans who favored revision and probably still larger numbers who opposed it. Since the course of this debate seemed likely in the long run to affect the attitude of Congress, it is useful to consider the arguments on which it turned. These arguments were concerned chiefly with three points: (*a*) the character of the existing settlements, (*b*) the present capacity of the borrowing nations to meet their obligations, and (*c*) the relation of debts to trade.

A. *The Existing Settlements*

Those who defended the existing settlements argued that the United States had treated its debtors with exceptional generosity and had already canceled a large part of their obligations. In commenting upon the report of the Young Plan Advisory Committee, stating Germany's inability to make full payment of reparations, Representative Snell of New York, the Republican floor leader in the House, asserted: "The people do not generally understand that the United States virtually canceled all of the money loaned during the war. The debts are not war debts; they are for money loaned for reconstruction purposes."[46]

This argument was based on the fact that in the debt-funding agreements negotiated after the war the United States had charged its debtors less than commercial rates of interest. In the case of the three largest borrowers, whose debts accounted for nine-tenths of the total borrowing, these

[46] *New York Times*, December 25, 1931.

rates of interest were: 3.306 per cent for Great Britain, 1.640 per cent for France, and .405 per cent for Italy.

Great Britain borrowed 3,696 million dollars before the end of the war and 581 millions afterward, a total of 4,277 millions. Her debt was thus 86 per cent pre-Armistice and 14 per cent post-Armistice. Assuming that she should have been charged interest at 5 per cent, the rate which the original demand notes bore when credits were advanced during and after the war, 30.1 per cent of her total debt was canceled in the funding agreement. Assuming that she should have been charged interest at 4¼ per cent, the average cost of money to the government at the time the loans were made, 19 per cent of her debt was canceled. Assuming interest at 3 per cent, the Treasury's estimate in 1926 of what money would on the average cost the United States during the whole period covered by the funding agreement, none of her debt was canceled; on the contrary, she was charged 4.4 per cent in excess of her borrowing. In order to prove the thesis that Great Britain's pre-Armistice debt was canceled, it was necessary to show that the total debt was reduced 86 per cent. None of the three theoretical rates of interest used by the Treasury in its calculations showed a reduction of more than 30.1 per cent.

France, our second largest debtor, borrowed 1,970 millions before the end of the war and 1,434 millions afterward, a total of 3,404 millions. Her debt was 58 per cent pre-Armistice and 42 per cent post-Armistice. Assuming interest charged at 5, 4¼, and 3 per cent, the percentages of cancellation authorized by the French debt agreement were 60.3, 52.8, and 35.4 respectively. Only on the assumption that interest should have been set at 5 per cent can it be shown that the pre-Armistice debt of France was canceled.

Italy borrowed 1,031 millions before the Armistice and 617 afterward, a total of 1,648 millions. The debt was 63 per cent pre-Armistice and 37 per cent post-Armistice. The settlement with Italy was more lenient than that with either

Great Britain or France. At 5 per cent, 80.2 per cent of the debt was canceled; at 4¼ per cent, the amount was 75.4 per cent; at 3 per cent, it was 63.6. Any one of these percentages shows a complete cancellation of the pre-Armistice debt.

In the debate over the extent of cancellation authorized by the debt agreements, those who defended the existing settlements generally assumed that interest could properly have been charged at 5 per cent, though even this high rate could not be used to show cancellation of the pre-Armistice debt in the case of Great Britain. Critics of the existing settlements believed that 3 per cent was a more realistic basis for such calculations and pointed out that at this rate cancellation of the pre-Armistice debts of the large borrowers had been authorized only in the case of Italy.

These critics also argued that the doctrine of "capacity to pay," which theoretically determined the widely different rates of interest granted to different debtors, had caused us to discriminate both unfairly and unwisely. This doctrine had required the World War Foreign Debt Commission to attempt to guess what the economic position of fourteen debtor nations would be twenty years from the date of its deliberations, forty years, and even sixty years. Inevitably, the commission guessed badly. It decided that Great Britain could pay interest at the rate of 3⅓ per cent, but France only at the rate of 1⅜ per cent. That is, it estimated British capacity to pay at more than double that of France. In less than seven years the whole outlook had been reversed.

B. *Present Capacity to Pay*

Whatever the merits of the original contracts, opponents of their revision argued that they imposed no charges in 1932 beyond the present capacity of the debtor nations. In support of this argument it was pointed out that the governments of these nations continued to spend much more on armaments than they were required to pay in principal and interest on their debts to the United States.

Advocates of revision of the debts agreed that it would be possible for the debtor governments to save money by reducing their armies and their navies. But they believed that it was a mistake to assume that reduction of armaments would in itself increase ability to pay debts due to the United States, if the debtor lacked an adequate reserve of gold. This assumption ignored the problem of transfer. Armies could be paid with domestic currency and navies built with domestic credit; but under the terms of their agreements with the United States the debtor nations were required to make payment in American dollars. This compelled them either to ship gold or to build up credits in the United States through the sale of goods and services.

The difficulty of transfer was increased by tariffs, by the decline of commodity prices, and by the depreciation of various European currencies. The debtor governments had not borrowed gold from the United States during the war years. They had borrowed wheat, flour, cotton, wool, tobacco, cloth, gun carriages, and high explosives. They had borrowed these goods at prices which reached their peak in the years from 1917 to 1920. Prices had subsequently fallen more than 40 per cent. This had automatically increased the burden of the debts. In Great Britain, Yugoslavia, Finland, Greece, and other debtor nations, an additional increase had occurred in consequence of currency depreciation. With the pound sterling at par, the British Treasury needed £20,000,000 to purchase the dollars required to pay principal and interest falling due in December, 1932. With the pound sterling at $3.22, it needed nearly £30,000,000.

A still more fundamental difficulty in "present capacity to pay" was the failure of the war debts to create assets providing for their own refunding. The goods which were borrowed during the war years were used for a destructive purpose. Unlike sound commercial loans, the war loans failed to increase the productivity of the borrower. The resultant debts were deadweight charges.

C. *War Debts and Trade*

A third point in dispute in 1932 concerned the practical consequences to the United States which would follow a policy of revision. Those who opposed any change in the existing debt agreements argued that revision would merely shift the burden of the war debts from the European nations to the shoulders of the American public; that a source of revenue amounting to about 280 million dollars annually would either be lost entirely or be substantially reduced; that new taxes would necessarily be imposed to increase the revenues of the government; and that no theoretical benefits accruing to the United States would compensate for this loss of European payments.

Advocates of revision believed that a scaling-down of the debts would help to solve the difficult problem of transfer; that it would assist European nations in stabilizing their currencies; and that the loss of a source of revenue amounting at best to one-tenth of the expenditures of the federal government was a small matter compared with the advantages to be gained through an increase of foreign trade.

This point of view was stated by the economists whose report was made public by the Committee for the Consideration of Intergovernmental Debts[47] on the same day that the British and French notes were published. The economists argued that however large the payments from Europe might seem to be, as an immediate source of revenue for the government, they were "small in comparison with the gains which would follow even a partial return of the prosperity of three years ago; an increase of 1 per cent in our national income over the present low levels would amount to more than twice the current annual installment on the war debts."

[47] The Chairman of this civic organization was Mr. Alfred P. Sloan, Jr., president of the General Motors Corporation. The Vice-Chairmen were Messrs. Nicholas Murray Butler, John W. Davis, Frank O. Lowden, D. B. Robertson, Louis J. Taber, R. F. Whitney, Alfred E. Smith, James M. Cox, Edward A. O'Neal, Henry P. Fletcher, Henry A. Wallace, and George W. Wickersham.

If foreign trade could be "restored to the levels of 1929, the additional revenues from customs duties alone would amount to nearly 300 million dollars—more than enough to compensate the Treasury for any loss resulting from reduction or even cancellation of war-debt payments." In these circumstances, revision of the debts appeared to promise "far greater material benefits to the American people than the direct income which would be received if direct payment could be made."[48]

It was inevitable that this question of material benefit should come more and more into the discussion of the war debts in the later months of 1932. Business activity in the United States was still at an exceedingly low level when the British and French notes of November 10 arrived. A large part of an early-autumn recovery in commodity prices had been lost. The measures enacted by Congress before its adjournment in July for the purpose of balancing the national budget had proved to be inadequate. By mid-November the Treasury had incurred a deficit of 700 million dollars. The postponement of war-debt payments due in December meant the loss of an additional 125 millions on which the government had been counting.

With its national income at a low point, higher taxes in prospect, a great burden of domestic debt, and no assurance that the worst of the depression had been witnessed, the American public was primarily concerned with the difficulties of its own position. In so far as the advocates of revision could persuade the public that one way out of these difficulties lay through recovery of foreign trade and restoration of world confidence, they won support for reconsideration of the debts. How far American opinion had actually moved in this direction by the time Congress reconvened, it is impossible to say.

[48] *New York Times*, November 14, 1932.

CHAPTER ELEVEN

SHANGHAI AND MANCHURIA

THROUGHOUT the year the events in the Far East cast their shadow upon the Western world. Regarded from the Japanese and Chinese points of view, the stakes in this great conflict were the control of large territories and the hegemony of the northeastern mainland of Asia. But from the Western point of view, the direct national interests of the powers in the Far East were subordinate to their interest in the indirect consequences of Japanese policy and action. Among the great powers, this was certainly true of the United States. It may be said with reasonable confidence that the moving cause of American policy was not so much the defense of such material rights as the United States had previously claimed in the Far East as it was the defense of the post-war treaty system upon which, it was believed, depended the pacification of the Western world and the consequent limitation and reduction of armaments.

The great efforts put forth by the Western powers, including the United States, were actuated by the belief that the safety of the Western world was bound up with the vindication of the League of Nations, of the Pact of Paris, and of multilateral treaties like those which had been agreed to at the Washington conference of 1922. A generation earlier, perhaps even as late as a decade earlier, the Western powers had taken it upon themselves to intervene in the Far East for commercial, financial, and strategic reasons of their own. But in 1931, when Japan began her advance in Manchuria, the Western powers were too weak and too much distracted

by the consequences of the war and of the depression to consider intervention in the old style. It might almost be said that if by some magic the East could have been isolated entirely, they would have stood aside and let China, Japan, and Russia, the powers directly concerned, settle the issues as best they could.

They could not stand aside, however much they might have wished to do so, because through the multilateral treaties events in the Far East were interlocked with the primary concerns of the Western powers. In the limitation of armaments, precarious and incomplete as it was, the Japanese navy was a prime element; in the whole vast complicated effort to pacify Europe, which was being carried on at Lausanne and Geneva, the faith and credit of the collective machinery of peace were of controlling importance. The Far Eastern powers were participants in this diplomatic system, and if it was broken in the Far East, not much dependence could be put upon it in the West.

Therefore, reluctantly, with much hesitation, with deep misgiving, the Western nations, including the United States, felt themselves compelled to go to the defense of the peace machinery, and to use what influence they could collectively muster to bring the Asiatic conflict to a solution within the forms and according to the spirit of the post-war covenants of peace.

1. *The Events Preceding the Announcement of the Stimson Doctrine*

On December 10, 1931, the Council of the League meeting in Paris had with the approval of the United States adopted a resolution[1] creating a Commission of Enquiry which came to be known as the Lytton Commission.

In its resolution the Council recalled the undertaking given

[1] Cf. *Appeal by the Chinese Government. Report of the Commission of Enquiry.* 6. League of Nations Publication, Official No. C.663. M.320, 1932. VII. Referred to hereafter as Lytton Report.

by the Japanese government on September 30 as to the withdrawal of Japanese troops within the railway zone. The Japanese representative accepted with a reservation saying that the resolution "was not intended to preclude the Japanese forces from taking such action as might be rendered necessary to provide directly for the protection of the lives and property of Japanese subjects against the activities of bandits and lawless elements rampant in various parts of Manchuria."[2] Some discussion took place in the Council on this reservation, and several Council members admitted that "circumstances might arise there causing danger to Japanese lives and property, and in such an emergency it might be inevitable that Japanese forces in this neighborhood should take action."[3] But no formal attempt was made to define the scope of the Japanese reservation.

While these diplomatic moves were being made in Paris, the military situation in Manchuria was about as follows:[4] Japanese forces were in control of the railroad from Dairen in the South to Tsitsihar in the Northwest, to Kirin in the Northeast, and to Antung in the Southeast; there were two Chinese forces in the region of Harbin and the Chinese Eastern Railway, and another Chinese army, under Marshal Chang Hsueh-liang, was strung along the Peiping-Mukden Railway, from Tungliao in the North, through Chinchow, to the Great Wall. After the action of the Council on December 10, it was understood in Europe and the United States that the situation would be maintained in its general character while the Lytton Commission was pursuing its inquiry, and that if Japan did not withdraw, she would at least not make any important advance.

But in the days immediately following the acceptance of the resolution, Japan began to regroup her forces and to send reinforcements. Her objective was seen to be Chinchow

[2] Lytton Report, 8.
[3] *Ibid.*, 77.
[4] *Ibid.*; cf. Map No. 8.

on the Peiping-Mukden Railway. The seizure of Chinchow would compel Marshal Chang Hsueh-liang's army to retire behind the Great Wall, leaving all the railways of Southern Manchuria in Japanese occupation. The attack on Chinchow was delivered on December 23, and the place was occupied on January 3.[5] That achieved, the Japanese army turned its attention to the North with a view to subduing the Chinese armies around Harbin.

It was under the impress of these events that the American government on January 7 addressed identic notes to China and Japan announcing what has come to be called the Stimson doctrine. The occasion of this declaration of policy was the fact that "with the recent military operations about Chinchow, the last remaining administrative authority of the government of the Chinese Republic in South Manchuria, as it existed prior to September 18, 1931, has been destroyed."

2. *The Stimson Doctrine*

The note then went on to say that:

> The American government continues confident that the work of the neutral commission recently authorized by the Council of the League of Nations will facilitate an ultimate solution of the difficulties now existing between China and Japan. But in view of the present situation and of its own rights and obligations therein, the American government deems it to be its duty to notify both the Imperial Japanese government and the government of the Chinese Republic that it cannot admit the legality of any situation *de facto* nor does it intend to recognize any treaty or agreement entered into between those governments, or agents thereof, which may impair the treaty rights of the United States or its citizens in China, including those which relate to the sovereignty, the independence, or the territorial and administrative integrity of the Republic of China, or to the international policy relative to China, commonly known as the open-door policy; and that it does not intend to recognize any situation, treaty, or agreement which may be brought about by means contrary to the covenants and obligations of the Pact of Paris of

[5] Lytton Report, 77–78.

August 27, 1928, to which Treaty both China and Japan, as well as the United States, are parties.[6]

In a press interview on January 8, Secretary Stimson explained the American position as follows:

> In the first place, we have not desired to question Japan's legitimate treaty rights in Manchuria. We do not intend to interfere with them in the slightest degree.
>
> In the second place, we have not desired to intrude ourselves into any settlement which Japan may make of the present unhappy difficulties except that:
>
> 1. Nothing in that settlement must impair our rights or our citizens' rights in China, such as the condition of an open-door policy and the Nine-Power Treaty which embodies the open-door policy;
>
> 2. That settlement should not be achieved by violation of the methods agreed upon in the Kellogg Pact.
>
> That is the substance of the position we have taken up.[7]

The note to China and Japan was communicated to the powers signatory to the Nine-Power Treaty. On January 11 the British government issued a *communiqué*[8] saying that in view of assurances that had been given by the Japanese Prime Minister as to the Open Door in Manchuria, no formal note would be addressed to the Japanese government, although the Japanese Ambassador in London had been requested to obtain confirmation of the Japanese position. Great Britain, in short, declined at this time to associate itself with the Stimson doctrine of non-recognition for any treaty or arrangement brought about by means contrary to the covenants and obligations of the Pact of Paris. The Dutch government followed suit. So, too, did the French and Italian governments. Therefore, the United States alone stood formally committed at this time to a refusal to recognize the consequences of a violation of the Pact of Paris.

The Japanese government replied on January 16.[9] After

[6] Department of State Press Release, January 7, 1932.
[7] *New York Times*, January 8, 1932.
[8] *Times* (London), January 11, 1932.
[9] Text in Department of State Press Release, January 16, 1932.

affirming its adherence to the policy of the Open Door, after disclaiming any "intention of adopting improper means," it insisted that the Chinese authorities in Manchuria had either fled or resigned and that "it was their own behavior which was calculated to destroy the working of the apparatus of government." Reasoning from this premise, the Japanese government declared that the Chinese people were not "destitute of the power of self-determination," and intimated what in fact followed: that Manchuria would by an act of "self-determination" be detached from China and set up as a quasi-independent state. This objective was not definitely announced. But the purpose was revealed.

Thus, in January, 1932, the issue was joined: the United States, on the one hand, stood committed not to recognize, and Japan, on the other hand, was moving to establish, a separate Manchurian state. On this issue the other Western powers remained, for the time being, noncommittal. They proceeded, however, in accordance with the resolution of December 10, to the selection of the Commission of Inquiry.

The membership[10] of this commission was finally approved by the Council on January 14, and a week later the commission elected Lord Lytton chairman. The position in mid-January of 1932 was, then, as follows: Japan had revealed her intention of establishing an independent Manchurian state. The United States had declared its intention of not recognizing this state. The other signatories to the Nine-Power Treaty had not determined their policy. An agency of the League of Nations, including an American member but not an American representative, was in existence authorized to proceed to the Far East and report "on any circumstance which, affecting international relations, threatens to disturb peace between China and Japan, or the good understanding between them upon which peace depends."

[10] The Earl of Lytton of Great Britain, Chairman; Count Aldrovandi-Marescotti of Italy; General Henri Claudel of France; Major General Frank Ross McCoy of the United States; Dr. Heinrich Schnee of Germany.

3. *Far Eastern Affairs during the Winter of 1932*

The diplomacy of the West was confronted almost immediately with sensational developments in the Far East. Between the middle of January and the beginning of March, two series of events took place. In the Northern theater, that is to say, in Manchuria, Japan proceeded to consummate the plan for a separate Manchuria; in the Southern, fighting broke out between the Chinese and Japanese around Shanghai and in the Yangtse Valley as far as Nanking. While Japan moved forward in Manchuria, the effort to stop the fighting at Shanghai occupied the attention of the Western powers. But in the end it also stiffened the Western resistance to Japan and brought a much larger measure of support for the Stimson doctrine.

The conflict at Shanghai was incidental to the much greater conflict for the possession of Manchuria. In the perspective of American foreign policy it is important chiefly because of its effect upon European opinion. As the League of Nations became involved in an effort to stop the Japanese advance around Shanghai, the smaller nations of the League showed increasing determination to uphold the peace system in the Far East. They began to exert pressure upon the great powers of the League, upon Great Britain and France, to align themselves with the United States.

The events we are about to describe fall within the first three months of 1932. The memorable dates are the following:

January 7. The Stimson doctrine announced.
January 16. Japan foreshadows "Manchukuo."
January 28. Japanese attack on Chapei (Shanghai).
February 18. "Declaration of Independence" by "Manchukuo."
March 11. The Assembly of the League declares it is "incumbent" upon members of the League not to "recognize any situation, treaty, or arrangement brought about by means contrary" to the covenants of the Pact of Paris.
March 12. "Manchukuo" formally seeks recognition by other gov-

ernments, but the request is ignored by all the powers except Japan.

It is necessary to follow the course of events at Shanghai, in Manchuria, and at Geneva. They were, as we have already indicated, interlocking, but for the convenience of this narrative we shall outline first the story of Shanghai, then of "Manchukuo," and finally of the Western diplomacy which these events called forth.

4. *The Affair at Shanghai*[11]

A. *The Anti-Japanese Boycott*

The outbreak of disturbances in China proper was a direct result of the resentment engendered among the Chinese during the preceding months by the events in Manchuria. An anti-Japanese boycott had been inaugurated in June, 1931, as a result of trouble between Chinese and Koreans, but the movement became especially effective in September, after the launching of the Japanese military campaign in Manchuria.[12] It was not restricted to a ban on the purchase of Japanese goods. Under the effective direction of the anti-Japanese Association for the Defense of the Country, it was extended so as to prevent the transportation of Japanese goods, the use of Japanese currency, the patronizing of Japanese banks and shipping, the sale of food to Japanese, and work by Chinese for Japanese employers.[13]

The results of the boycott were soon evident in the con-

[11] The official story of this affair up to February 20 is to be found in the Report of the Consular Committee appointed by the League. After February 20 the story is told in part in Chapter V of the Lytton Report. We have summarized it in this section for the convenience of the general reader.

[12] Boycotts against foreigners, and especially against the Japanese, have not been uncommon in China. Such movements occurred in 1908, 1915, 1919, 1923, and 1925. The boycott of 1925 was directed primarily against the British.

[13] Many details of discrimination to which their nationals were subjected were reported by the Japanese delegation to the League of Nations. See League of Nations Publications, Official Nos. A. (Extr.) 6. 1932. VII; C.678. M.285. 1931. VII; C.695. M.300. 1931. VII.

traction of Japanese foreign trade. Next to the United States, China is the largest buyer of Japanese goods. While it is difficult to separate the effects of the boycott from those of the world depression, it is significant that although the total exports of Japan in 1931 were in value 22 per cent less than in 1930, Japanese exports to China in 1931 declined 40 per cent.[14] As the boycott became more and more effective, the bad feeling between the Chinese and Japanese increased, especially in Shanghai, the chief industrial city of China and the center of trade with Japan.

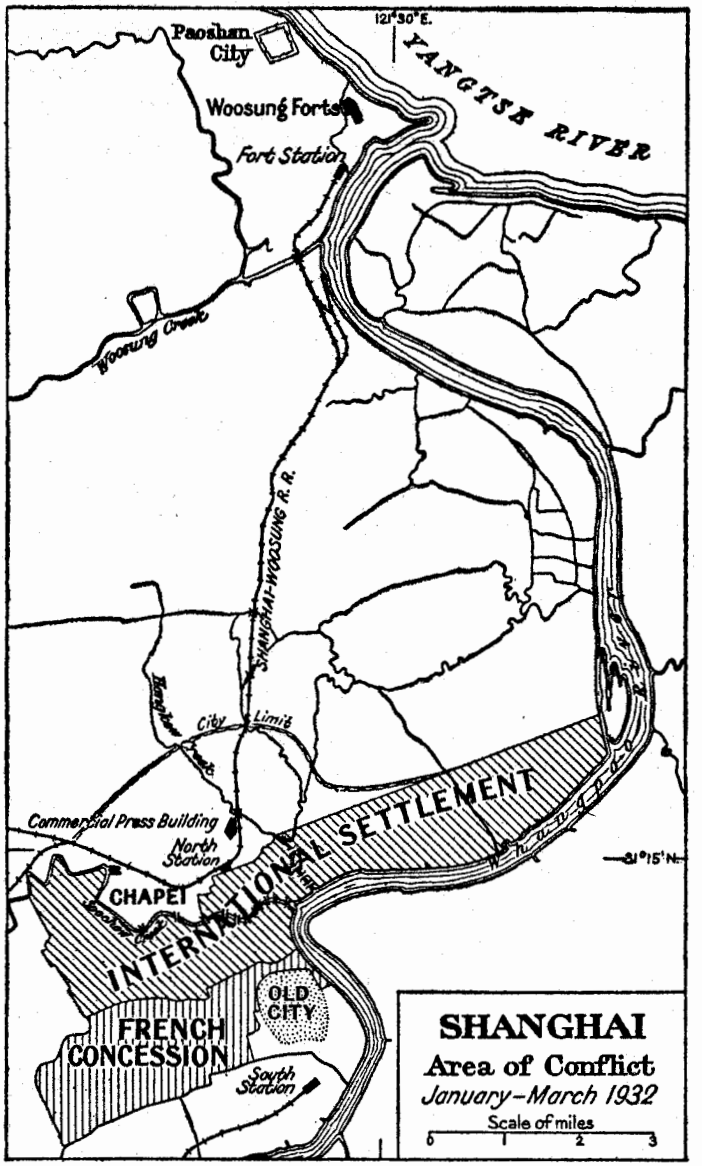
B. *Outbreaks of Violence*

The Japanese resentment over such a policy was greatly intensified on January 9, 1932, when the *Min Kuo Daily News* (*Min Kuo Jih Pao*), the official organ of the Kuomintang, or Chinese national party, published an account of an attack on the Emperor of Japan by a Korean and expressed regret that another carriage than the Emperor's had been damaged. This caused bitter indignation in the Japanese colony in Shanghai.[15] The Japanese Consul General in Shanghai, Mr. Kuramatsu Murai, protested to the local authorities and demanded an apology. This finally was tendered on January 21.

Meantime, on January 18, a mob of Chinese in Chapei attacked a party of five Japanese Buddhists, including two priests, as they were passing a towel factory. Chapei is a

[14] It is possible that Great Britain's abandonment of the gold standard in September, 1931, may have given British goods an advantage over Japanese in the markets of China during the last quarter of 1931. Japan's abandonment of the gold standard in December, 1931, obviously counteracted any advantage that British goods had previously enjoyed, and it is highly significant that in January, 1932, Japanese exports to China were 68 per cent less in value than in the corresponding month of 1931. In South China, where the boycott was most effective, trade with Japan had approached the vanishing point, Japanese imports being 94 per cent less than in January, 1931. *China, Monthly Trade Reports,* January, February, March, 1932 (compiled by the United States Department of Commerce); *Commerce Reports,* December 7, 28, 1931; January 25, 1932.

[15] League of Nations Publication, Official No. A. (Extr.) 4. 1932. VII.


Paoshan City
121°30' E.
YANGTSE RIVER
Woosung Forts
Fort Station
Woosung Creek
SHANGHAI-WOOSUNG R.R.
Yangkingpang Creek
City Limits
Commercial Press Building
North Station
INTERNATIONAL SETTLEMENT
CHAPEI
Soochow Creek
OLD CITY
FRENCH CONCESSION
South Station
31°15' N.
SHANGHAI
Area of Conflict
January–March 1932
Scale of miles
0 1 2 3

suburb of Shanghai lying outside the International Settlement. Three of the Japanese were seriously injured, and one died later from his wounds. On the 20th about fifty members of the Japanese Youth Protection Society retaliated by setting fire to the factory. On the same day a mass meeting of Japanese residents in Shanghai adopted a resolution urging the Japanese government to send additional forces to Shanghai to protect its nationals.

Three days later the Japanese Consul General called upon the Mayor of Shanghai, General Wu Te-chen, and demanded an apology for the attack on the Japanese, punishment of the assailants, suppression of anti-Japanese propaganda, and especially the dissolution of the anti-Japanese societies. These demands were supported by Admiral Koichi Shiozawa, in command of the naval forces on the Yangtse River, who on the same day issued a statement that if the Chinese authorities refused to comply, he might find it necessary to take such action as would be needed to defend the lives and property of Japanese subjects.

C. *The Japanese Ultimatum*

On January 23 the Japanese Consul at Nanking presented a demand to the Chinese Foreign Office for redress because of the insulting remarks about the Emperor in the *Min Kuo Daily News*. At the same time the Japanese government sent a cruiser and several destroyers with marines to reinforce those already at Shanghai, but the United States Consul General at Shanghai, Mr. Edwin S. Cunningham, notified the Department of State at Washington that Admiral Shiozawa had agreed not to resort to any operations within the International Settlement without first consulting the Settlement authorities.

As General Wu delayed his reply to the Japanese demands, additional naval forces were dispatched to Shanghai, and on January 27 Admiral Shiozawa delivered a 22-hour ultimatum to the Mayor. On the following day General Wu notified

Consul General Murai that he had acceded to all the Japanese demands, and Mr. Murai informed him and also the foreign consuls at Shanghai that the reply was satisfactory and that no immediate further action would be taken. In conformity with this agreement, the headquarters of the boycott associations were closed, and their offices were sealed by the Chinese police.[16]

But here, as previously in Manchuria,[17] it soon became evident that the Japanese military leaders paid little or no attention to the commitments by the civil authorities. Some hours before the Mayor gave his answer to the Japanese demands, the Municipal Council of the International Settlement decided to proclaim a state of emergency beginning at 4 P.M. This imposed upon the commanders of the various forces in the Settlement, including the Japanese, the duty of protecting the outside boundaries of their respective sectors.

For a few hours, Admiral Shiozawa limited his forces to the assigned sector, but at 11 P.M. he announced that he would dispatch troops into Chapei, giving as his reason that Japanese nationals resided there in large numbers and needed his protection. He also expressed the hope that the Chinese would withdraw all troops stationed in that area and remove all "hostile defenses."

Chapei was occupied by Chinese troops from the Nineteenth Route Army. Their commander did not comply with the Japanese request to withdraw, and could hardly have done so in the brief time allowed by Admiral Shiozawa. For the Japanese began their advance on Chapei shortly before midnight. Moreover, the Japanese leaders failed to keep their promise to consult with the Settlement authorities before engaging in this operation, and they also used the Settlement as a base from which to launch their movement.

The events which led to the outbreak of hostilities are still

[16] First Report of the Shanghai Committee to the League of Nations, February 6, 1932.

[17] See *The United States in World Affairs, 1931*, 246–272.

in dispute. The Japanese asserted that their marines were fired upon first by Chinese snipers in civilian clothing and then by regulars. The Chinese maintained that the Japanese began the fighting by directing machine-gun fire against the Chinese troops, who had refused to retire as the Japanese advanced. In any event, both sides were soon engaged in general fighting, which culminated early the following morning in the bombing of Chapei by Japanese airplanes. There was much loss of life among the civilian population.

The advance of the Japanese was opposed by detachments from the Nineteenth Route Army, which offered such strong resistance that the invaders, after severe fighting in the streets, were forced to withdraw and dig themselves in behind the Woosung Railway. Fighting, looting, and sniping continued in the Chapei area for more than a month with heavy loss of life and destruction of property. The Japanese, apparently, had expected the same policy of non-resistance here that they had encountered in Manchuria, and were greatly surprised and disturbed at the effective fighting power of the Chinese soldiery.

The Japanese naval forces on the Yangtse River launched an attack also on the Woosung forts at the mouth of the Whangpoo River defending the water approach to Shanghai. Here again they met with stubborn resistance. If the navy had hoped to duplicate the feat of the army in Manchuria by making an easy conquest, it signally failed in its purpose. On February 9 Admiral Shiozawa was relieved by Admiral Nomura, and heavy reinforcements were sent from Japan. On March 1 General Shirokawa arrived and took over the supreme command. The army thus displaced the navy, which had evidently lost face in Tokyo after its early reverses. Under the pressure of the steadily increasing Japanese forces, the Chinese finally retreated north of Shanghai for a sufficient distance to enable the Japanese to assert that they had achieved their purpose. By this time the Japanese forces had

increased from the original 2,000 marines and sailors to an army of more than 70,000 men.

It is estimated that during the month of conflict the Japanese lost approximately 3,000 in killed and wounded and the Chinese 20,000.

D. *The Attitude of the Powers*

At the outbreak of hostilities, there were in the International Settlement about 1,200 United States marines and 2,300 British troops. On January 28 the United States Navy Department ordered four destroyers to proceed from Manila to Shanghai. Three days later the cruiser *Houston* and more destroyers, as well as the Thirty-first Infantry, consisting of more than 1,000 men, and 600 additional marines, were also sent from Manila to the danger zone. It was announced in Washington that Great Britain and France were coöperating with the American government by sending additional ships and troops.[18]

Even before the fighting began, the American government made representations to Japan that there should be no military operations in the International Settlement by Japanese troops unless the municipal forces of the Settlement proved clearly inadequate to protect life and property. Great Britain, after a consultation between Secretary Stimson and Sir Ronald Lindsay, the British Ambassador, took similar action. These two governments then informally notified the French and Italian governments of their course, with the implication that similar representations by them to Japan might be desirable. France promptly complied with this suggestion.[19]

Repeated efforts were made by the American and British Consuls General during the fighting around Shanghai to bring the hostilities to an end. On January 29 they succeeded

[18] *New York Herald Tribune,* January 30, 1932.
[19] *New York Times,* January 30, 1932.

in arranging a truce, but this was soon broken. On the 31st they obtained the consent of the Japanese Consul General, in the presence of Admiral Shiozawa, Mayor Wu, and the local commander of the Chinese troops, to forward to the Tokyo government a suggestion that the Japanese troops should be withdrawn from the Chapei area. On February 2, with the concurrence of the French and Italian representatives, the American and British Consuls General submitted five proposals to the disputants:

1. Cessation of all acts of violence on both sides forthwith on the following terms:
2. No further mobilization or preparation whatever for further hostilities between the two nations.
3. Withdrawal of both Japanese and Chinese combatants from all points of mutual contact in the Shanghai area.
4. Protection of the International Settlement by the establishment of neutral zones to divide the combatants; these zones to be policed by neutrals; the arrangements to be set up by the consular authorities.
5. Upon acceptance of these conditions, prompt advances to be made in negotiations to settle all outstanding controversies between the two nations in the spirit of the Pact of Paris and the resolution of the League of Nations of December 9, without prior demand or reservation and with the aid of neutral observers or participants.[20]

On the following day, while these proposals were under consideration, Japanese planes again dropped incendiary bombs in the Chapei district. China accepted the peace proposals, but Japan definitely rejected clauses 2 and 5, and on the same day (February 4) an army division of 11,000 men was ordered to relieve the marines in Shanghai. On February 5 the Japanese renewed their offensive on a large scale.

E. *The Case before the League*

The attack on Shanghai was brought to the attention of the League Council on January 29 by the Chinese delegate, Dr. W. W. Yen, who invoked Articles X and XV of the

[20] League of Nations, *Official Journal*, March, 1932, 395.

Covenant.[21] In order to obtain accurate information from the scene of hostilities, it was decided that members of the Council, other than parties to the dispute, who had official representatives at Shanghai should constitute a Committee of Inquiry to report on the causes and development of the trouble. The consular officers of six nations[22] made up this committee. The American government was informally requested to designate its consul general at Shanghai as a member. Secretary Stimson replied that the Department of State could not appoint an official on a committee which would be acting under one of the provisions of the League Covenant, but that it would instruct a representative to cooperate with the committee in studying and reporting the facts.[23]

Article X stipulates that members of the League shall undertake to respect and preserve against external aggression the territorial integrity and political independence of all members of the League, and the Council is enjoined to advise the members of the course to be pursued in the event of any such aggression. Article XV stipulates that if a dispute arises between members of the League which is likely to produce a rupture of peaceful relations and is not submitted to arbitration or adjudication, the Council shall undertake to bring about a settlement. This article also provides that either party to a dispute may, within fourteen days after its submission, demand that it be referred to the Assembly.

On February 12 Dr. Yen took advantage of this provision and asked that the dispute be referred to a special session of the Assembly, inasmuch as the Council had failed to effect a settlement. His purpose seems to have been to spur the Council to action before the Assembly met. The request was referred to a committee of jurists, who reported a week later

[21] This was in addition to Article XI, which China had already invoked in September, 1931, in connection with the Manchurian affair. League of Nations Publication, Official No. A. (Extr.) 4. 1932. VII.

[22] Great Britain, France, Germany, Italy, Norway, and Spain.

[23] Department of State Press Release, January 31, 1932.

that it had been submitted in the proper manner and that the Council should comply.[24]

Since most members of the League were already represented at Geneva by their delegates to the Disarmament Conference, the convoking of the Assembly was not a difficult matter, and a special session was called for March 3. Pending this meeting, the Council resorted to further efforts to terminate the dispute. On February 16, with the Chinese and Japanese delegates not participating, it drafted a strong note to the Tokyo government. In this note it reminded Japan of her covenants under the Nine-Power Treaty and the Pact of Paris. It cited the willingness of China to accept the Council's proposals for a peaceful settlement and contrasted this with the refusal of Japan to coöperate. It also appealed "to Japan's high sense of honor to recognize the obligations of her special position and of the confidence which the nations have placed in her as a partner in the organization and maintenance of peace."[25]

The slight impression which this note made on the Japanese military authorities is indicated by their action two days later. On the 18th they sent an ultimatum to General Tsai Ting-kai of the Nineteenth Route Army and to Mayor Wu of Shanghai, demanding that the Chinese evacuate their first-line trenches by 7 A.M. on February 20 and permanently evacuate an area of 400 square kilometers around Shanghai by 5 P.M. of the same day. On the 19th the League Council appealed to Japan to extend the time limit so as to facilitate a settlement, and on the same day it convoked an extraordinary session of the League Assembly. In defending the course of Japan at this meeting, Mr. Sato, the Japanese representative of the Council, departed from the customary rôle of the Japanese spokesmen who had depicted China as the "attacking party" and Japan as acting wholly on the de-

[24] *Monthly Summary of the League of Nations*, XII, 23–27, 41–44, January, February, 1932.

[25] *Ibid.*, 44–45.

fensive. Mr. Sato boldly stated that his country was acting "under the same imperious necessity" which in the past had prompted other powers to resort to extreme measures in China.[26]

On the 20th, when the Chinese did not comply with the ultimatum, the Japanese renewed their attack on the entire front from Shanghai to Woosung.

On February 23 the Japanese government replied to the note of the League Council. The answer was evasive. It professed inability to understand why the note had been sent to Japan when China was the real aggressor. It denied a violation of Article X of the Covenant, since Japan entertained no territorial or political ambitions in China. It affirmed its determination to abide by the Nine-Power Treaty but declared that it could not discuss the terms of this agreement with "powers other than those who were parties to that agreement and in the absence of some who were parties." As a final argument it raised the point that China did not constitute an "organized people" and could not be treated as such.[27]

The only practical suggestion in the Japanese reply was a proposal for the establishment of a safety zone around Shanghai to protect the Japanese nationals against Chinese attacks. On February 27 Mr. Sato elaborated this proposal at a meeting of the Council and suggested that the neutral zone be occupied by military forces of the great powers.

The League Council made no direct reply to the Japanese note of February 23, but it endeavored to bring about a cessation of hostilities before the meeting of the Assembly. On February 28, new negotiations for an armistice were opened at Shanghai aboard the British flagship *Kent* between Chinese and Japanese representatives in the presence of the British naval commander. The Japanese insisted that the Chinese forces should be withdrawn at least twenty kilo-

[26] *Monthly Summary of the League of Nations*, XII, 48.
[27] *Ibid.*, 45–46.

meters (twelve and a half miles) from Shanghai. The Chinese at first refused to consent unless the Japanese would agree to evacuate their occupied area by a definite date.

The fighting continued until March 3, when large reinforcements enabled the Japanese to launch a combined sea and land attack, with a flanking movement which forced the Chinese to abandon their last defense line some ten miles west of Shanghai and conduct a strategic retreat for twenty miles. On March 3 the Japanese also captured the Woosung forts. With the Chinese army now beyond the neutral zone originally specified by Japan, the Japanese could claim to have attained their objective, and hostilities were suspended. On the same day the League Assembly met to consider the situation at Shanghai.

5. *The Independence of "Manchukuo"*

Contemporaneously with the fighting around Shanghai, the project of a separate Manchurian state was rapidly advanced. In the larger view this was much the more important development, but at the time it was obscured by the smoke of battle at Shanghai. Public opinion was diverted. But responsible officials and students of Far Eastern affairs continued to keep their attention fixed upon Manchuria, where the real test of the efficacy of the post-war peace machinery was certain to be made.

The story of the formation of the new Manchurian state, called "Manchukuo," is told in detail in the sixth chapter of the Lytton Report. We shall treat it here only in outline.

The attack on Mukden took place on September 18, 1931, and as a result the government of the city and of the province of Liaoning was completely disorganized. By September 24 the Japanese military authorities had persuaded a former Chinese official and eight other Chinese to form a "Committee for the Maintenance of Peace and Order." The Japanese press acclaimed this as the beginning of a separatist movement, though it was denied almost immediately by the

Chinese official. Nevertheless, during October new organs of government were established and on November 7 the Liaoning provincial government formally proclaimed the severance of its relations with the central government of China at Nanking. On November 20 the name of the province was changed to Feng-tien.[28] Separate governments were

The shaded lines indicate approximate territorial limits of "Manchukuo" when recognized by Japan as an independent state. Jehol was also claimed by "Manchukuo" but was not in its actual control. Hsingan is a newly established Mongol province of "Manchukuo." (Map reproduced from *Foreign Affairs*, XI, 316, January, 1933.)

also established in the two other provinces of Kirin and Heilungkiang, and a few indecisive steps were taken toward the creation of a new government in the province of Jehol.

By the new year these separate provincial governments had been sufficiently organized, and the next phase, that of

[28] This had been its name before its union with Nationalist China in 1928. Cf. Lytton Report, 90.

combining them into a new state, was begun. The proclamation calling for a great popular movement to create an independent state of Manchuria and Mongolia was issued from Mukden on January 7 under date of January 1. The arrangements were agreed on at a conference at Mukden on February 16–17, and on February 18 there followed a Declaration of Independence. Meetings were organized in the region to give popular support, and within ten days an All-Manchurian Convention was held at Mukden to set up the new state and to designate the former Emperor Hsuan Tung as Provisional President under his personal and republican name of Mr. Henry Pu-yi. On March 4, after some hesitation, Mr. Pu-yi accepted, and on March 9 he was inaugurated as the Regent of "Manchukuo" in the new capital of Changchun. On March 12 notice of the establishment of "Manchukuo" was sent to the foreign powers and they were requested to grant it recognition.

6. *The Course of Western Diplomacy*

While the new state was being established, there had also been developments in the West which resulted in a distinct hardening of the opposition to the recognition of "Manchukuo." There were at least three diplomatic moves which must be noted.

A. *The American Fleet in the Pacific*

The first of these was the concentration of virtually the whole American navy in the Pacific during February, 1932. The program called, first, for a joint army and navy exercise off Hawaii during February, with the naval battle force participating. After this maneuver the battle force steamed eastward and attempted to "capture" a foothold on the Pacific coast of the United States. It was opposed in this movement by the naval scouting force, which left its station in the Atlantic on February 23, passed through the Panama Canal, and took its defensive position off the west coast on March

8. There it awaited the battle force approaching with a convoy of troopships and sought to prevent the attainment of its objective.

These maneuvers were followed by fleet concentration and tactical exercises during April and May. The Navy Department later decided to retain the scouting force in the Pacific until after the 1933 concentration, scheduled to be held off the west coast during February and March.

It was, of course, officially denied that these ship movements had any diplomatic significance. The Navy Department declared that its purpose was "to continue the development of coördination and coöperation between the army and the navy and to train the two services in the joint operations involved in the attack of a defended area and in the joint operations involved in the defense of such an area."

Officially, the plans for the annual maneuvers in these waters had been laid two years before. Nevertheless, by the end of February the effective naval strength of the United States was stationed in the Pacific and its presence was not overlooked in the diplomatic negotiations of the period.

B. *The Restatement of the Stimson Doctrine*

The second event was the publication of a more elaborate statement of the American policy. It was contained in a letter, dated February 24, addressed by Secretary Stimson to the Chairman of the Senate Committee on Foreign Relations, Mr. Borah.[29] In this letter the Secretary of State not only confirmed the adherence of the United States to the Nine-Power Treaty and the Pact of Paris, but made this significant declaration:

> It must be remembered also that this Treaty was one of several treaties and agreements entered into at the Washington Conference by the various powers concerned, *all of which were interrelated and interdependent.* [Italics are the authors'.] . . . The willingness

[29] Department of State Press Release, February 24, 1932.

of the American government to surrender its then commanding lead in battleship construction and to leave its positions at Guam and in the Philippines without further fortification was predicated upon, among other things, the self-denying covenants contained in the Nine-Power Treaty, which assured the nations of the world not only of equal opportunity for their eastern trade but also against the military aggrandizement of any other power at the expense of China. One cannot discuss the possibility of modifying or abrogating those provisions of the Nine-Power Treaty without considering at the same time the other promises upon which they were really dependent.

This document, it was understood, was addressed not only to Japan, but almost equally to Great Britain and also to all the nations then represented at Geneva in the World Disarmament Conference. It was in effect notice that if the treaty structure of the Far East was not maintained, the progress made during the previous decade in the limitation of navies might be undone.

This emphatic reiteration of American official opposition to the overthrow of the treaty structure was accompanied by the appearance of a considerable body of unofficial opinion in favor of the adoption of a still more positive program with regard to the enforcement of the treaties. The attack on Shanghai served to renew the interest of Congress in proposals for an arms embargo or an economic boycott against Japan. As a result of the earlier developments in Manchuria, there was pending before the Committee on Foreign Affairs in the House a bill introduced by Representative Hull of Illinois empowering the President to put an embargo on goods to nations violating the Pact of Paris. In the Senate, Mr. Dill of Washington introduced a resolution authorizing the President to prohibit the shipment of arms to either of the disputants in the Far East. But on intimations from the Department of State that the discussion of these measures at that time might complicate an already delicate situation, the House Committee decided to take no action on bills of this

nature until the Administration indicated its willingness to have them considered.[30]

This situation did not restrain the expression of private opinions. A committee headed by President A. Lawrence Lowell of Harvard University and Mr. Newton D. Baker, who had been Secretary of War in the Wilson Cabinet, and including over 150 members of college faculties, issued a statement favoring in principle an economic boycott as a means of promoting respect for international agreements and of obtaining a settlement of the Sino-Japanese dispute. Another committee, appointed in September, 1931, by the Twentieth Century Fund, with President Nicholas Murray Butler of Columbia University as Chairman, and having among its members Mr. Alanson B. Houghton, former Ambassador to Germany and Great Britain, and Mr. Silas H. Strawn, President of the Chamber of Commerce of the United States, submitted a report in March recommending that the government call a conference of the powers signatory to the Pact of Paris for the purpose of adopting a supplementary protocol providing a method for determining measures of non-intercourse as a means of preventing a threatened violation of the pact, or, in the event of its violation, as a means of applying corrective measures and restoring the *status quo ante*.[31] There were other equally sincere friends of peace, however, who strenuously opposed economic sanctions as likely to aggravate the dispute and lead to war.

Similar proposals were brought forward by groups of private citizens in Great Britain. But in all the nations, the United States included, official opinion was resolutely opposed to the employment of sanctions.

C. *The Action of the League Assembly*

On March 3, in accordance with the request made on February 12 by the Chinese delegate, Dr. Yen, the Assembly

[30] *New York Herald Tribune*, January 30, 1932.

[31] Text and Final Report of the Committee on Economic Sanctions of the Twentieth Century Fund.

of the League of Nations met in special session. At this time the hostilities around Shanghai were nearly over, as the Japanese had forced the retirement of the Chinese army beyond the zone which they sought to occupy, but an actual armistice had not yet been achieved. In Manchuria military activities for the occupation of the northern regions were under way, and in the area already in control of the Japanese army the organization of "Manchukuo" was being energetically pushed. The United States had concentrated its whole fleet in the Pacific and had served notice that it regarded the Far Eastern treaties, the Pact of Paris, and the treaties limiting navies as interrelated. The attitude of the British and French governments toward Manchukuo was still undefined, but among the smaller nations of Europe sentiment, based primarily on a recognition of their interest in the preservation of the post-war system of peace, had grown to noteworthy proportions.

Fifty nations were represented in the Assembly. The United States, though officially unrepresented, had a delegation in Geneva at the time attending the Disarmament Conference. Through members of this delegation, the United States was in continual though unofficial contact with the leading members of the Assembly.

The first business before the Assembly was to attempt to terminate the fighting around Shanghai.[32] The Japanese were prepared to negotiate on this point but insisted that the Manchurian phase of the Sino-Japanese dispute be not considered. On March 4 the Assembly, including Japan, voted a resolution calling upon Japan and China to take immediate steps for the cessation of hostilities, and upon the other powers "which have special interests in the Shanghai settlements" to inform the Assembly "of the manner in which the invitation set out in the previous paragraph is executed."

Three days later, discussion was resumed in the Assembly and it then transpired that the smaller nations were deter-

[32] League of Nations, *Official Journal*, Special Supplement No. 101.

mined upon affirmative action to uphold the peace treaties. In this phase there took place an alignment between the great powers and the small powers of the League. The Assembly was acting, for the first time in its history, in accordance with the procedure of Article XV of the Covenant. Unless Japan made concessions which it was clearly impossible for her to make, the logic of this procedure led by successive and inevitable steps to a formal pronouncement that Japan had violated the Covenant and then to the necessity of applying the economic sanctions under Article XVI.[83]

Since the burden and risks of the economic sanctions would fall on the great powers, they were opposed to taking any of the steps which led to Article XVI. The smaller nations, on the other hand, faced with no risk of their own, but greatly concerned about the integrity and efficacy of the League, were insistent that the League must not flinch at the test to which Japan's action had put it. Between March 4 and March 11 there was intensive negotiation at Geneva in search of a formula which would at once satisfy the demands of the small powers for a moral vindication of the peace machinery without subjecting the great powers to the ordeal of applying sanctions.

The problem was solved by the resolution adopted on March 11 by the vote of forty-five delegations, the Japanese and Chinese abstaining. This resolution had two important elements. In the first part, it stated that the Assembly

Proclaims the binding nature of the principles and provisions referred to above [namely, that the Covenant was entirely applicable to the present dispute and that the Pact of Paris was harmonious

[83] Article XVI stipulates that if any member of the League should resort to war in disregard of the Covenant, it shall be deemed to have committed an act of war against all other members of the League, "which hereby undertake immediately to subject it to the severance of all trade or financial relations, the prohibition of all intercourse between their nationals and the nationals of the Covenant-breaking State, and the prevention of all financial, commercial, or personal intercourse between the nationals of the Covenant-breaking State and the nationals of any other State, whether a member of the League or not."

with the Covenant] and declares that it is incumbent upon the members of the League of Nations not to recognize any situation, treaty, or arrangement which may be brought about by means contrary to the Covenant of the League of Nations or to the Pact of Paris.

The language of this part of the resolution is the same as the language of the notes addressed by Secretary Stimson to the Chinese and Japanese governments on January 7. It thus constituted an adoption of the Stimson doctrine by the Assembly and was in effect an order to the Lytton Commission, then in the Far East, to report on whether the situation, treaties, and arrangements being made in Manchuria had in fact been brought about by means contrary to the Covenant and the Pact of Paris. It meant that if the commission reported that a violation had occurred, the members of the League were morally bound not to recognize "Manchukuo."

But the Assembly did not stop there. It went on to establish a Committee of Nineteen consisting of the President of the Assembly, the members of the Council not parties to the dispute, and six members of the Assembly to be elected by secret ballot, and instructed this committee to work under the supervision of the Assembly on the whole Sino-Japanese dispute. The significance of this action lay in the fact that the Assembly had refused to leave the matter to the Council, where the influence of the great powers was dominant. The Committee of Nineteen was an organ of the small powers created by them to defend the integrity of the Covenant.

The United States immediately stated its approval of the position taken by the Assembly, in a statement by Secretary Stimson, on March 12, which read as follows:

The nations of the League at Geneva have united in a common attitude and purpose toward the perilous disturbances in the Far East. The action of the Assembly expresses the purpose for peace which is found both in the Pact of Paris and the Covenant of the League of Nations. In this expression all the nations of the world can speak with the same voice. This action will go far toward developing into terms of international law the principles of order

and justice which underlie those treaties; and the Government of the United States has been glad to coöperate earnestly in this effort.[84]

The approval at Washington was reaffirmed on March 12 in a formal communication by the United States Minister to Switzerland, Mr. Hugh R. Wilson, acknowledging receipt of the Assembly resolution from the Secretary-General.

7. *The Evacuation of Shanghai*

While the Western nations were defining their position at Geneva, negotiations for an armistice were proceeding at Shanghai.

The Chinese Vice-Foreign Minister, Mr. Quo Tai-chi, and the Japanese Minister to China, Mr. Mamoru Shigemitsu, met with Sir Miles Lampson, the British Minister, Mr. Nelson Johnson, the American Minister, and the French and Italian Ministers. They reached an agreement that the Japanese troops should withdraw and that the Chinese troops should not reoccupy the evacuated territory. The Japanese military leaders accepted this agreement on March 14. A truce was to be signed on the 23rd. But at the last moment the Chinese raised objections, mainly on the ground that the establishment of a neutral zone around Shanghai would be an infringement of Chinese political integrity. After much discussion and recrimination on both sides, the whole problem was finally referred to the Committee of Nineteen at Geneva. This committee maintained close communication with the representatives of the powers in Shanghai, and at various meetings considered their reports and the proposed terms of a resolution for evacuation.

Throughout the proceedings, the Japanese sought to prevent resort by the Assembly to any action under Article XV. For this might imply compulsion in the settlement of the dispute. The Chinese wished to have the committee fix some date for the withdrawal of the Japanese forces from Chinese territory, and they were supported by some of the smaller

[84] Department of State Press Release, March 12, 1932.

nations. The larger powers, however, upon whom would fall the duty of enforcing such a stipulation, wished to avoid any measure that would involve a direct challenge to Japan. They were probably mindful of the failure of the League Council to make good its insistence some months previously that Japan evacuate Manchuria by a fixed date.[35] As a compromise, it was proposed to give the armistice commission at Shanghai authority to recommend a date for the evacuation. This was accepted by the Chinese. But the Japanese rejected it, insisting that they be allowed to withdraw at their own discretion and that they would not recognize the right of the League to deal with the dispute under Article XV of the Covenant.

The British Minister at Shanghai then offered a new compromise proposal to which the Japanese and Chinese finally gave their consent. This provided for the eventual withdrawal of the Japanese troops from Chinese territory into the International Settlement. But it did not fix a date. Instead, it authorized the armistice commission to call attention to any neglect in carrying out the terms of the armistice. The diplomatic representatives at Shanghai thus reserved the right to bring pressure to bear on Japan if the terms of the agreement were not complied with within a reasonable time.

It now remained for the Committee of Nineteen at Geneva to consider whether this agreement was in harmony with the Assembly resolutions of March 4 and 11. On April 28 the committee decided that the articles conformed to the spirit of these resolutions, and drafted a new resolution approving the agreement for resubmission to the Assembly. The agreement stipulated that the Chinese troops should remain in their present positions pending the restoration of normal conditions, while the Japanese should withdraw within the International Settlement in two stages. The first of these was to begin before May 9 and to end by June 6, and a joint

[35] Cf. *The United States in World Affairs, 1931*, 260–262.

commission was to decide when the time was ripe for the second stage of evacuation.

Another meeting of the Assembly was called for April 30 to consider this proposal, but on April 29 the outlook for a settlement was suddenly clouded by the attempt of a Korean to assassinate the leading Japanese officials at Shanghai. While the Japanese there were celebrating the Emperor's birthday, a bomb was thrown into the reviewing stand, and General Shirokawa, the Japanese Commander-in-Chief, Mr. Shigemitsu, the Japanese Minister to China, Mr. Murai, the Japanese Consul General, General Uyeda, and Admiral Nomura were among those seriously injured. Inasmuch as the perpetrator of this outrage was a Japanese subject and had committed the crime in an area wholly under Japanese control, the incident fortunately brought no new complications with China.

The Assembly duly convened on the 30th. Dr. Yen, the Chinese delegate, who had been insistent upon the naming of a definite date for the Japanese evacuation, called the agreement unfair and unjust but admitted that it was at least a practical solution. Mr. Nagaoka, the Japanese representative, announced that his government would accept the armistice terms and carry them out faithfully, but that Japan would abstain from voting on the resolution inasmuch as she did not recognize the right of the Assembly to act under Article XV of the Covenant.[36]

With both disputants agreeing to the armistice, there remained only the formulation of its details and the supervision of their execution. This work was to be done by the "participating friendly powers" at Shanghai rather than at Geneva. When the agreement was ready for signing, the

[36] The Japanese abstention may be regarded as a step toward a peaceable solution, inasmuch as such measures must pass the Assembly unanimously. A negative vote by Japan would have created further complications and greatly confused the issue. Under the Assembly's rules, when a country abstains from voting, it is regarded as constructively absent, and if there are no dissenting votes, the action is deemed unanimous.

document had to be carried to the Fu-ming Hospital in Shanghai for three of the signatures. Mr. Shigemitsu and General Uyeda were there as victims of the Korean bomb, and Mr. Quo Tai-chi, the Chinese Vice-Foreign Minister, was having his injuries treated after having been assaulted by Chinese students who were displeased with the compromise.[87] While the armistice was being signed, armed guards stood watch over Mr. Quo's rooms to prevent another attack. The scenes at the hospital bore eloquent testimony to the tense feeling in the Far East.

The execution of the armistice was placed under the supervision of a joint commission of twelve, consisting of a civil and a military representative of China, Japan, the United States, Great Britain, France, and Italy. The United States Consul General at Shanghai, Mr. Edwin S. Cunningham, was designated as chairman of the commission. On May 11 the Japanese government announced its decision to withdraw all its troops within a month. On May 31, before the expiration of this term, the last of the expeditionary force sailed for Japan, leaving behind only a small detachment of marines, similar in character to those of other foreign powers within the Settlement.

8. *The Interval before the Lytton Report*

With the evacuation of the Shanghai region, there was a pause in the action of Western diplomacy while the Lytton Commissioners pursued their inquiries. They had arrived in Tokyo on February 29, 1932, in Shanghai on March 14, in Nanking and other places in the Yangtse Valley on April 1, in Peiping on April 9, and in Manchuria on April 20.[88] They remained in Manchuria for five weeks. They returned to Peiping on June 5, to Tokyo on July 4, and then

[87] It was the provision of the armistice restricting the movement of the Chinese troops in Chinese territory that was the main source of the resentment aroused among the Chinese nationalists. They regarded this as an infringement of their national sovereignty.

[88] A preliminary report was dispatched to Geneva on April 29.

again to Peiping. There they drafted their final report, completing it on September 4. It was dispatched to Geneva and there published on October 2.

During this period fighting continued in Manchuria between the Japanese army and various irregular Chinese forces. In China proper there was disunion, and civil war continued. Only two events call for special attention in this history. The first was a speech by Secretary Stimson on August 8, and the second was the Japanese recognition of "Manchukuo" on September 15.

In the relative quiet prevailing in the diplomacy of the Far East, Secretary Stimson took occasion to address the Council on Foreign Relations in New York.[39] His speech was timed so as to precede the formal opening of the Presidential campaign. It was intended as a statement of American policy which would not only reaffirm the American stand in regard to Manchuria but would draw from it a wider conclusion applicable to the problem of security then before the Disarmament Conference.

The essential point of the speech was the declaration that the Pact of Paris had altered international law, had changed the whole doctrine of neutrality, since war had "become illegal throughout practically the entire world," and that consultation was inherent in the pact. In so far as the action of one Administration has power to bind its successors by precedents and declarations, the Hoover Administration, speaking through Mr. Stimson, was attempting to show how the United States, without adhering to the Covenant of the League, could integrate its own policy with the collective peace machinery of the rest of the world.

In this sense it was received and widely approved in Europe. But in Tokyo the speech was greatly resented because in making his argument Mr. Stimson assumed by implication that Japan was an aggressor nation which had violated the

[39] The authoritative text of this speech has been printed as a Special Supplement to Vol. XI, No. 1 of *Foreign Affairs* (October, 1932).

peace treaties. There was, consequently, much perturbation in Japan. Some two weeks later the Consulate General of Japan in New York issued the full English text of an address to the Imperial Diet in Tokyo delivered by Count Yasuya Uchida, the Japanese Foreign Minister. This speech contained an unequivocal justification of the whole course of Japanese policy in Manchuria, a denial that the Nine-Power Treaty had been violated, and an argument for Japanese recognition of "Manchukuo."

On September 15, while the Lytton Report was in transit from Peiping to Geneva, the Japanese government recognized "Manchukuo" and concluded an alliance with it.[40] The purpose of this action was understood to be a desire to confront the League of Nations with an accomplished fact when it undertook to consider the Lytton Report. The United States took no action. The Chinese government protested to the League. At the session of September 24, the President of the Council, Mr. Eamon de Valera, spoke as follows:

> Before even the publication of that [Lytton] report, Japan has, not only by recognizing, but also by signing a treaty with what is known as the Manchukuo government, taken steps which cannot but be regarded as calculated to prejudice the settlement of the dispute. For almost a year the Council in its collective capacity, and the individual governments which compose it, have scrupulously refrained from uttering any word of judgment on the merits of this grave dispute, on the ground that a commission had been set up to investigate the dispute in all its bearings, and that until the commission has reported and its report has been considered by the organs of the League, the whole question is still to be regarded as *sub judice*.[41]

Having uttered this rebuke, the Council then agreed to the request of the Japanese government that discussion of the Lytton Report be postponed until the week of November 14–21.

[40] See Appendix VII (*b*).

[41] League of Nations *Official Journal*. Minutes of the Sixty-eighth Session of the Council, 1931.

On October 2 the text of the Lytton Report was made public.

9. *The Lytton Report*

The Lytton Report was recognized at once throughout the Western World as an expert, a conscientious, and a thorough examination of the whole problem. The full text is available, admirable summaries of it have been published by the League of Nations, by the Foreign Policy Association and by the American Council of the Institute of Pacific Relations, and it would therefore be a work of supererogation for us to make another digest of it here. For the convenience of the reader, we are reprinting as an appendix the digest of the conclusions of the Lytton Commission made by Dr. Raymond Leslie Buell for the Foreign Policy Association.[42]

We note here simply that the commission found that in the original attack upon Mukden on September 18, 1931, "the military operations of the Japanese troops during this night . . . cannot be regarded as measures of legitimate self-defense"; that as to "Manchukuo" it found that "the present régime cannot be considered to have been called into existence by a genuine and spontaneous independence movement," on the part of the population, and that the Japanese were in control of the "Manchukuo" government. It found further that "the maintenance and recognition of the present régime in Manchuria would be . . . unsatisfactory" and would not be "compatible with the fundamental principle of existing international obligations, nor with the good understanding between the two countries upon which peace in the Far East depends." On the other hand, it found also that "a mere restoration of the *status quo ante* would be no solution."

It proposed, therefore, the creation of an autonomous Manchuria within the Chinese Republic, a recognition of the rights and interests of Japan in Manchuria in a new

[42] Cf. Appendix VII (*a*).

treaty restating those rights, the negotiation of a new Sino-Japanese commercial treaty, and finally "temporary international coöperation in the internal reconstruction of China, as suggested by the late Dr. Sun Yat-Sen."

The commission concluded with "considerations and suggestions to the Council" for carrying out its conclusions.

The session of the Council to consider the report met on November 21. As no conclusions were reached within the period treated in this volume, we conclude our account at this point. At the end of November the League had before it the report of the commission it had created in December of the previous year, and it was faced with the necessity of acting upon the findings of that commission.

In the Western world the outcome of that action was held to be a crucial test of the post-war treaties for the maintenance of peace. More than twelve months had passed since the treaties were put to this test. In that period the occupation of Manchuria had been extended, there had been open warfare around Shanghai, and the Japanese plan for a Manchuria separated from China and dependent upon Japan had been consummated. It remained to be seen whether the situation in the Far East could be made to conform to the spirit, if not to the letter, of the general treaties of peace.

CHAPTER TWELVE

REDUCTION AND LIMITATION OF ARMAMENTS

ALTHOUGH no agreements were arrived at which actually affected armaments during the year, there were interesting and important developments resulting from the active negotiations. The United States was an active participant in the Conference for the Reduction and Limitation of Armaments held at Geneva, and in the course of the year significant changes occurred in its policy. It is not our purpose to attempt to write a complete history of the intricate proposals and counter-proposals offered by all the nations represented at the conference. We shall confine ourselves to a short account of the evolution of American policy in response to the emergent realities of the world situation.

The conduct of the American government can best be understood by recognizing a certain duality in the original premises of its policy during the whole post-war period. Successive Administrations had maintained the thesis that the reduction of armaments was the surest guaranty of political security, and in their efforts to persuade the European powers to limit and reduce they consistently preached this doctrine. On the other hand, these same Administrations had acted upon the opposite thesis in those specific cases, most particularly with regard to the balance of naval power in the Pacific, where a vital American interest was at stake. There, the United States had insisted upon the organization of political security as the prelude to the limitation and reduction of armaments, and had signed the Washington Naval Treaty of 1922 only after the Anglo-Japanese Alliance

had been abrogated, after the Nine-Power Treaty, promising the integrity of China and the Open Door, had been agreed to, and after a consultative pact for the region of the Pacific had been established. But with respect to Europe, lacking a vital interest either in the balance of naval power in the Mediterranean and in the English Channel or in the balance of land armaments on the new frontiers of the Continent, the United States government continued well into 1932 officially to disclaim a belief that the settlement of political questions necessarily preceded the reduction of armaments.

This duality in policy was sharply illustrated during the year. The evolution of American policy turned upon the effort of the Administration to resolve its inherent contradictions. For under the educational pressure of the negotiations at Geneva, it gradually became plainer and plainer to the President and to Secretary Stimson that no actual, substantial reduction of armaments was possible except as the consequence of political agreements. In reaching this conclusion, the Administration believed itself to be in advance of the opinion of the American people as expressed by Congress, and for various reasons the President did not consider it wise or prudent to call the attention of the voters to the fact that American policy was changing. At moments, which we shall note later, declarations were made by official spokesmen which signified the gradual change of policy, but these declarations were made in language which would arouse little public interest in the United States, though they would permit American representatives abroad to use them in private diplomatic negotiation.

Thus the American policy was really conducted on two planes. On the upper and more conspicuous plane, the Administration on three successive occasions, on February 9, April 11, and June 22, presented proposals, which were increasingly far-reaching, for the limitation and reduction of armaments. On the less conspicuous but more important plane, the Administration made successive advances, increas-

ingly explicit and specific, toward participating in the organization of political security. The American procedure at this level consisted in using the implications of the Stimson doctrine in the Far East to illustrate, emphasize, and define a policy of collaboration in the maintenance of peace. This general policy was formally endorsed in the platforms of both political parties; it was reiterated and elaborated in the President's speech of acceptance and in Secretary Stimson's address of August 8 before the Council on Foreign Relations; it was generalized and emphasized further by the application of the Stimson doctrine to the dispute between Paraguay and Bolivia over the Chaco.

In the light of these considerations, the history of the Disarmament Conference may now be considered in outline. We shall find that the first phase of the conference—from its assembling on February 2 to its adjournment on July 23—was devoted to a demonstration of how impossible it was to reduce armaments by the mere discussion of armaments. We shall find that this demonstration brought about a second phase, largely private, for the time being inconclusive, but nevertheless informing to the negotiators, which began when Secretary Stimson visited Geneva in the spring, and lasted throughout the autumn of 1932. In this period the United States government actively examined those questions which prevented agreement, and attempted within prudent limits to advance solutions. No agreements were attained within the time covered by this book, but in official circles at least it was felt that great progress had been made in exploring the problem of disarmament.

1. *The American Proposals*

The Conference for the Reduction and Limitation of Armaments convened in Geneva on February 2, 1932. The United States was represented by a delegation consisting of Mr. Hugh Gibson, Mr. Norman H. Davis, Senator Claude

A. Swanson, and Dr. Mary E. Woolley, with Mr. Hugh R. Wilson as alternate.

The first few weeks were devoted to the presentation of plans by the various delegations. Two of these plans may be noted here. M. Tardieu, speaking for France, offered the conference a project for the organization of security by means of an international army.[1] His purpose, it may be presumed, was to emphasize before world opinion the conviction held by France and by her allies, the Succession States of Central and Eastern Europe, that disarmament was dependent upon the establishment of collective resistance to warlike aggression. Mr. Gibson, speaking for the United States, presented a nine-point program for the limitation of certain types of weapons and the abolition of others.[2] In the American proposal no concession whatever was made to the theory that armaments and politics are related.

Following the presentation of the general plans, it became necessary to organize the unwieldy conference for closer examination and discussion of the many questions that were before it. The divergence of view represented by the French and American proposals was reflected in the maneuvering incident to organization. A steering committee called the Bureau of the conference, a General Commission comprising the first delegates of all states represented, and a number of technical committees to deal with navies, armies, air forces, and budgetary matters, were agreed upon. Issues were raised in regard to the choice of presiding officers for these bodies.

The President of the conference as a whole had been chosen the year before. At that time the states of the world had already divided into two large groups representing different theories of disarmament: the Latin group, led by France, which insisted that security should precede disarmament, and the other states, led by the English-speaking na-

[1] League of Nations Publication, Official No. Conf. D. 56.
[2] Cf. Appendix VIII (*a*).

tions, which maintained that disarmament was not only a form of security in itself, but should precede any further attempt to organize security. A President had to be chosen who would satisfy both groups. Mr. Beneš, Foreign Minister of Czechoslovakia, had often been mentioned. But he had been opposed because his government was considered to be too definitely committed to the "security" school. Finally, after much argument, Mr. Arthur Henderson, then Foreign Secretary of Great Britain, had been chosen by the Council. When the conference met, the Cabinet in which Mr. Henderson was Foreign Secretary had fallen, but he continued as President of the conference. Mr. Politis of Greece and Mr. Beneš of Czechoslovakia had been elected vice-president and *rapporteur* respectively.

These two statesmen belonged to the "security" school. The French bloc attempted to make one of them Chairman of the Bureau and the General Commission, leaving Mr. Henderson in charge principally of the plenary sessions of the conference. At this point the American delegation took the initiative and supported a motion that Mr. Henderson preside over both the General Commission and the Bureau. This move was made in such a manner that it carried the majority of delegates, and Mr. Henderson was accordingly placed in charge of these important committees.

A move was then made by the "security" states to constitute a Political Commission of the conference which, like the General Commission, would represent every state in attendance. The Political Commission was supposedly created to deal with the question of security, and an attempt was made to obtain a Chairman for the commission who might be favorable to this idea. But by assuming the initiative again, Mr. Gibson, in agreeing to the establishment of the Political Commission, moved that Mr. Henderson, as Chairman of the conference, should preside over this body also. The motion was carried. Thus the working organs of the

conference were presumably under the control of nations desiring disarmament without political compensations.

While the American delegation was defending its official thesis at Geneva, the Department of State made a move in the Far Eastern affair which showed that where vital American interests were affected, the United States did in fact recognize the interdependence of armaments and political policy. On February 24, as we have already noted in the preceding chapter, Secretary Stimson addressed a letter to Senator Borah pointing out that the Washington Naval Treaty and the Nine-Power Treaty were "interrelated and interdependent," for, said Mr. Stimson, "the willingness of the American government to surrender its then commanding lead in battleship construction and to leave its positions at Guam and in the Philippines without further fortification was predicated upon, among other things, the self-denying covenants contained in the Nine-Power Treaty. . . ." The Administration was not, however, prepared then to recognize that the armaments of France and her allies were predicated upon the desire to maintain the covenants which established the existing frontiers of Europe.

Nevertheless, after some weeks of debate, the United States delegation, on March 16, did take the position that the conference, as Mr. Gibson put it, ought to come to "grips with the great political questions, great questions of principle, and to dispose of them." Accordingly, he proposed that after the Easter recess either the General Commission or the Political Commission will "sit continuously until such time as sufficient progress has been made in respect of decisions on questions of principle to allow the special commissions fruitfully to pursue their labors."[8] This recommendation appeared to express the views of all the delegations and was adopted unanimously.

When the conference resumed on April 11, it began with

[8] *Journal* of the Conference for the Reduction and Limitation of Armaments, 302. Referred to hereafter as *Journal*.

a general discussion of the principles raised by Article I of the draft convention,[4] it having been previously decided that the conference would deal with proposals which fell within the framework of the draft convention. Article I of this instrument stated that "the High Contracting Parties agree to limit and, so far as possible, to reduce their respective armaments as provided in the present convention." The purpose was to discuss the major questions of principle in connection with this article.

In the course of this discussion, Mr. Gibson on April 11 laid before the conference a proposal to abolish peculiarly aggressive weapons, including tanks, heavy mobile guns, and gases.[5] In his speech on February 9, he had advocated the restriction of these weapons, but now he proposed to abolish them.

The American delegation thus attempted to deal at one stroke with security and disarmament. Mr. Gibson argued that the demand for security arose from fear on the part of a government and its people as to their ability successfully to withstand invasion. Were not those nations which maintained the largest armaments the very nations which were most apprehensive about their security? The solution, he thought, was to remove the fear of aggression. Technical progress in armaments had made offensive power superior to defensive. The invention of tanks, of heavy mobile artillery, and of poison gases had been the chief cause. There could be no hope of achievement by the Disarmament Conference until these peculiarly aggressive weapons were abolished and a feeling of security was restored by making the defense as superior to the offense as it had formerly been.

This American proposal for "qualitative disarmament" was an attempt to meet the demand for security without making

[4] The draft convention had been elaborated by a Preparatory Commission in sessions extending from May 13, 1926, to December 9, 1930. The government of the United States was officially represented on this commission. Cf. *The United States in World Affairs, 1931,* Chapter XIII.

[5] Cf. Appendix VIII (*b*).

political commitments. Its purpose was to satisfy the supposed psychological premise of the French thesis while adhering rigidly to the American thesis. It occupied the attention of the conference, at least of the experts and subordinate officials, for some weeks. In the course of the debate on the principle, the German delegation took the opportunity of reminding the conference that the abolition of aggressive arms had been decided upon in the Treaty of Versailles and had been applied to Germany with considerable success. The conference needed only to look at the weapons which had been denied to Germany in order to know which weapons were admitted to be aggressive. Naturally, the German suggestion was altogether too naïve for the other powers, and it was treated as a gesture. However, after much discussion a "formula" was proposed by Sir John Simon on April 22. It said that:

> Without prejudice to other proposals which fall to be discussed under later heads of the agenda, the Conference declares its approval of the principle of qualitative disarmament—that is, the selection of certain classes or descriptions of weapons with a view to prohibiting by international convention their possession or use by any state.[6]

Having decided the question in principle, it was then necessary to apply the principle. For this purpose the General Commission of the conference decided that the whole range of land, sea, and air armaments "should be examined by the competent special commissions with a view to selecting those weapons whose character is the most specifically offensive, or those most efficacious against national defense, or those most threatening to civilians."[7] In this way it was attempted to give practical effect to the original American proposal that the means of attack should be weakened and the means of defense strengthened.

Some weeks of effort were devoted by the technical com-

[6] *Journal*, 429.
[7] *Ibid.*, 432.

mittees in trying to decide which naval, land, and air weapons could be classified as aggressive or particularly efficacious in overcoming the defense. They were unable to decide. Every conceivable type of weapon was eulogized by some delegation as being in all respects defensive. Thus, for example, Great Britain and the United States considered the battleship and the cruiser more distinctively defensive than aggressive, while the submarine was in their opinion one of the "cruel assassins of the sea." France and some of the smaller powers, on the contrary, considered the large battleship aggressive, while the submarine, which had been denied to Germany because it was aggressive, they held to be a purely defensive weapon which could not be dispensed with in any program of national defense. In the Land Commission, weeks were spent in determining whether heavy artillery was offensive when the caliber was 107, or 140, or 190, or 210, or 240 millimeters. In the Air Commission, the attempt was made to distinguish between aggressive and defensive air weapons according to horsepower, unladen weight, wing spread, and range of mobility.

The British appeared as advocates of the smaller tanks, of which they had a large number. The United States experts undertook to argue in the hearing of the Japanese that airplane carriers were not offensive. It does no injustice to this phase of the conference to say that each power sought to describe its own weapons as defensive and to stigmatize as offensive the weapons it feared.

A complete deadlock on this line ensued. The General Commission received reports from its various technical committees, which left the conference and public opinion in a state of confusion.[8] There was a reason for this inaction. After the defeat of the Tardieu Government in the May elections in France, there was an interval of about six weeks before the Herriot Government took office. During this time

[8] See Conf. D. 121 (Naval Report), D. 122 (Air), D. 123 (Land).

the powers at Geneva could reach no decisions on principle and occupied themselves with fruitless technical studies.

It is not possible to say precisely when the Administration came to perceive that no progress could be made simply by proposing reduction, whether qualitative or quantitative. Presumably at the time of Secretary Stimson's visit to Geneva in April, the Administration began to realize that the road to reduction of armaments could be opened only by reducing the political tension between France and Germany, between France and Italy, and between Japan and the United States. This tension reflected the instability of the new European frontiers and the conflicting ambitions of Japan, China, and Russia in the Far East. It was when the futility of proposing mere disarmament had been demonstrated in the spring that serious private conversations were begun dealing with the actualities of Continental politics and of American relations to them. These conversations were continued until midsummer, were resumed in September, and persisted in throughout the autumn. In their history, if the facts were all known and could be told, would be found whatever progress was made during the year in the direction of the eventual limitation and reduction of armaments.

But before attempting to record what little is known of this phase, it is necessary to note the final and most ambitious American proposal to reduce armaments without political equivalents. This proposal, known as the Hoover Plan, was launched without previous notice on June 22. The formal conference had not been active for some weeks. The fact was that the responsible statesmen of the great powers were occupied either with the Lausanne conference or with private conversations concerning the basic questions of the Geneva conference. During the pause in the public activity on disarmament, many of the delegates from the smaller states, who were, of course, excluded from the private conversations, became restive at the secrecy and the delay. On June 21, a deputation from the smaller powers waited on Mr. Hen-

derson, asking him when the General Commission would meet. Mr. Henderson explained that in view of the private conversations then in progress, the General Commission would probably not meet until July 1.

On the afternoon of the same day, however, Ambassador Gibson called upon Mr. Henderson, urging him to convene the General Commission as speedily as possible. Mr. Gibson stated that on the following day the President of the United States would put before the American public a new and sweeping disarmament proposal, and that it was desired to lay this same proposal before the Disarmament Conference. Accordingly, to the astonishment of everyone in Geneva, a meeting of the General Commission was immediately called for the afternoon of the next day. When the delegates met, only three or four of them knew what was the purpose of the meeting or what were the reasons why Mr. Henderson had so suddenly changed the program announced the day before.

The procedure adopted did not appeal to the professional diplomatists, and most particularly to the French, who saw an uncomfortable analogy with the procedure adopted in launching the Hoover moratorium. However, the intention was clearly to make an appeal over the heads of governments to public opinion, and the Hoover Plan did have a better reception among the peoples than among the statesmen.

The plan[9] called for a reduction of one-third in the strength of all land armies over and above the so-called police component. The police component, said President Hoover, should be calculated from the army allowed to Germany under the Treaty of Versailles; that is to say, it should be 100,000 troops for 65,000,000 people, or one soldier for 650 inhabitants. The plan suggested, but did not define, "necessary corrections for powers having colonial possessions." The formula, if adopted, would have required drastic

[9] Cf. Appendix VIII (*c*).

reduction of the French army and of the armies of all of France's allies. Mr. Hoover proposed also to abolish all tanks, all large mobile guns, all instruments of chemical warfare, and all bombing planes, to reduce by one-third the number and tonnage of battleships fixed in the treaties, to reduce the treaty tonnage of aircraft carriers, cruisers, and destroyers by one-fourth, to reduce the treaty tonnage of submarines by one-third, and to prohibit more than 35,000 tons of submarines.

Three important delegations immediately approved the Hoover Plan. The other great powers held back. When finally a resolution was adopted embodying as much of the Hoover Plan as the hesitant powers would agree to, all the powers that had originally approved, declined to vote for it.[10]

The Italian delegation was the first great power to give unqualified approval. In a statement made by the Foreign Minister, Signor Grandi, Italy accepted "entirely and in all its parts the disarmament plan just submitted to the General Commission by the American delegation." He continued, saying: "This acceptance is complete and unconditional, that is to say, we accept these measures not only in principle but also as to their practical consequences." But one month later, when the general resolution growing out of the Hoover Plan was adopted, Italy abstained from voting.[11]

Mr. Litvinoff also welcomed the proposals of the American delegation, since they proceeded to some extent along the lines of the Soviet proposals which had previously been rejected. The Soviet delegation, he said, "was prepared to go any length in the direction of disarmament. It would agree to complete disarmament, partial disarmament, qualitative disarmament, quantitative disarmament, moral disarmament, or any other form which meant substantial disarmament."[12] On July 21, however, the Soviet delegation felt obliged to

[10] *Journal*, 931–964.
[11] *Ibid.*
[12] *Ibid.*, 770–71.

vote against what was left of the Hoover Plan in the conference resolution.[13]

The German delegation expressed the belief that the proposals would give a fresh stimulus to the conference and facilitate its work. It also noted that the substantial reductions called for would help solve the problem of equality.[14] On July 21, Germany, too, felt obliged to vote against the resulting resolution.

Sir John Simon, speaking for Great Britain, described the Hoover Plan as "deeply interesting and profoundly important." The British delegation, he said, would in some respects have gone further, as, for example, by abolishing submarines and by reducing the size of the capital ship.[15] Later, however, it became clear that Great Britain did not wish to abolish all tanks, as proposed in the Hoover Plan, nor did it wish to reduce the number of warships. But on July 21 Great Britain was able to vote with the United States in favor of the conference resolution.

M. Paul-Boncour, speaking for France, expressed interest and sympathy with the clear, simple, and direct proposals of President Hoover. He was obliged, however, to remind the conference that France continued to believe that the reduction of armaments was bound up with the organization of international security. He was also obliged to ask his American colleagues what sanctions they were prepared to offer in case nations used their forces, not for national defense, but for aggression as well.[16] On July 21 France and the United States were able to vote in favor of the same resolution.

Speaking for Japan, Mr. Matsudaira gave a clear intimation that the naval ratios of the London Naval Treaty were unsatisfactory to his country, and that before extending that treaty beyond 1936, as proposed by Mr. Hoover, there was

[13] *Journal*, 931–964.
[14] *Ibid.*, 771.
[15] *Ibid.*, 769.
[16] *Ibid.*, 769–70.

need for another exchange of views among the powers directly interested.[17] On July 21 Japan was also able to vote for the resolution.

It is necessary, therefore, to seek an explanation for the fact that the countries which had most warmly supported the Hoover Plan on the day it was proposed were obliged to abstain from voting or to vote against the conference resolution, whereas the countries which were originally doubtful or actually hostile were able finally to vote with the United States.

2. *A Month of Secret Negotiation*

It was immediately evident that however acceptable the Hoover Plan might be to Italy, Germany, and Russia, it would not be agreed to in its original form by France and Great Britain. The plan did, after all, provide for a reduction of armaments which would radically have altered the military and naval balance of power in Europe. The enthusiasm of Italy, Germany, and Russia was quite in accordance with the objective of their foreign policies. They were discontented with the constitution of Europe established at Versailles, and a proposal which reduced the relative strength of France and her allies was obviously to their advantage.

The reception accorded the Hoover Plan was for this reason somewhat embarrassing, and those charged with the conduct of American foreign policy were confronted at once with a grave decision. Had they continued to agitate for the adoption of the integral plan, the United States would unintentionally have become the leader of the revisionist bloc in Europe. It would have been acclaimed by nationalist opinion in all the countries dissatisfied with the *status quo* and by pacifist opinion in other countries. But it would have been forced to align itself definitely against France and her allies, and it would have gravely disturbed the improved relations between France and Great Britain upon which depended the

[17] *Journal*, 771.

solution of the reparation question at Lausanne. It would have sacrificed all chance of agreement on a multitude of questions and would have made no advance whatever toward actual disarmament. The American government, which by this time was in close touch with the realities of European politics, chose to avoid a rupture of negotiations with France and to make whatever compromises were necessary in regard to its own plan. To this end, it entered into private conversations with France and Great Britain, in which Italy also participated later.

These conversations lasted about a month—from June 22 to July 22. Naturally the other powers represented at the conference grew restive, and on July 7 and 8 the General Commission was convened in order to enable some of the smaller states represented in the conference to express themselves concerning the Hoover Plan. Thirty delegations took part in this discussion.[18] Opinion in favor of general acceptance of the American scheme was overwhelming. Some delegates called it the most important contribution made to the conference; some compared it to Wilson's contribution to the Covenant and Kellogg's contribution to the Pact of Paris. While acceptance was almost universal among these states, the Belgians and the Swiss pointed out that the plan had omitted all mention of private manufacture of and trade in arms, and of an ultimate international control through a Permanent Disarmament Commission. On both these points, however, the American position had previously been made clear. It was generally understood that the plan, while not rigid and all-inclusive, did not deliberately avoid these two points, which were, under proper conditions, acceptable to the American government.

After this remarkable demonstration, the private and exclusive negotiations were again resumed among the three powers. From July 8 to July 20, few in Geneva knew what was being discussed. The excluded delegations, the press, the

[18] *Journal*, 827–45.

private international organizations protested and demanded that the conference be resumed, that negotiations take place in public. It was strongly urged that these private conversations were alienating a whole section of the conference, that they were suppressing the publicity which might force the British and French delegations to a more thorough acceptance of the Hoover Plan. The American delegation, however, believed it was pursuing the wiser course in attempting to win acceptance of the Hoover Plan by the two countries which must accept it if it was to be put into effect. The American delegation felt that no agreement was possible without France and Great Britain. But the decision to work out a compromise with these two powers alienated the support of Italy, Germany, and Russia. The two last-named were scarcely consulted during the month of private negotiations, and they rapidly became annoyed and suspicious.

The Germans concluded that insufficient consideration was being given to their very special problems, though they admitted that the Hoover proposals in regard to the number of effectives and the total abolition of certain weapons would, in practice, have given very large recognition to the German claim of "equality" in armaments. It was during this period that the German delegation reached the decisions which led later to the complete deadlock in the conference on the issue of equality of status.

Italy also joined the opposition. Signor Grandi was removed from office, chiefly, it is believed, because of his failure to stand by the Hoover proposals, which Italy had unqualifiedly endorsed. He was replaced at the conference by General Balbo. On July 21 the new delegate flew from Rome to Geneva and proceeded to tell the General Commission that the resolution drafted in secret by the Americans, British, and French was "entirely inadequate when compared with the wishes and hopes of the world . . ." and that "a mere declaration of goodwill by the assembled powers in general terms would make no impression on the world,

which was seeking and expecting definite results." The naval section of the resolution merely indicated a mode of procedure, he said, and did not even lay down positive principles for reduction. Italy would, therefore, abstain from voting. The Soviet delegate, Mr. Litvinoff, also stated that the resolution would "bring bitter disappointment to all those persons and organizations who had been pinning all their hopes of peace upon the conference." He moved two amendments, both of which would have reinstated in the resolution certain proposals made by President Hoover. The Dutch and Swedish delegations also proposed amendments restoring planks of the Hoover Plan in the resolution. The American delegation joined with the British and French in voting against these amendments.[19]

Mr. Gibson explained that the consultations during the past weeks had convinced him that the text of the resolution as it stood represented the maximum of agreement which could be reached at the moment. He went on to say that the resolution was the result of a complicated series of interrelated concessions which, if disturbed now, would open the door, with most unfortunate results, to the reconsideration of a whole series of questions. He explained also that since no state represented in the conference was bound by a majority vote, it was necessary to proceed by consolidating that measure of accord which could then be reached.

It was somewhat awkward, no doubt, and there was an element of irony in the predicament of the American delegation, which found itself voting against the adoption of the plan it had offered to the world thirty days before. But the alternative, which would have been to stand with the revisionist bloc led by Russia and Germany, would have made the United States a partisan in the deepest and most dangerous alignment in European politics. When the true position was realized by responsible American officials in Washington and Geneva, they saw that the real choice was either to assist

[19] *Journal*, 931–38.

an agitation which pointed to the disorderly overthrow of the existing European system or to participate in the organization of a system of security under which political grievances might be gradually and peaceably settled and armaments voluntarily reduced.

The decision to compromise with France would, if continuity in American foreign policy can be assumed, mark the final recognition in official circles that mere disarmament as such is an impossibility and that for disarmament there must be a political equivalent. It was no coincidence that on August 8, about a fortnight after the adjournment of the Disarmament Conference, Secretary Stimson, in a speech before the Council on Foreign Relations, pointed out, first, that the obligations of neutrality had been altered by the Pact of Paris, and, second, that the United States would consult with other powers when aggression was threatened.[20]

From the American point of view, this was the real conclusion to the first part of the World Disarmament Conference. The United States no longer professed to believe that armaments could be reduced without political agreements, and, as its contribution to such agreements, it declared its desire to participate in collective efforts to maintain the peace. To what extent this change of view was understood and approved by Congress and the American public is another question. It is one that cannot be answered as these pages are written, for owing to the elections no particular attention was paid to the proceedings at Geneva by the people at large. It should, however, be noted that the platforms of both political parties declared in favor of consultation and that no important voices were raised in objection.

In this development of American policy and in the renewal of good relations between Great Britain and France in the Accord of Confidence made at Lausanne,[21] are to be found

[20] Cf. Chapter XI.
[21] Cf. Chapter VIII.

the chief results of the first phase of the World Disarmament Conference.

3. *The Resolution of July 23*

The actual form of words adopted in the resolution largely drafted by Great Britain, France, and the United States is of relatively small importance compared with the weighty diplomatic decisions which have been noted above. The resolution was important not because of what it said but because it marked the continuing collaboration of Great Britain, France, and the United States, the three strongest powers in the world.

The actual resolution[22] merely recorded the general intentions of the conference and made a general promise as to the kind of convention which would eventually be agreed on. Except for a recommendation that the truce in armament construction agreed on in September, 1931, should be extended for four months from November 1, 1932, the resolution did not specifically affect existing armaments.

The preamble welcomed heartily "the initiative taken by the President of the United States in formulating concrete proposals for a substantial reduction of armaments by the prohibition of certain methods of warfare, by the abolition of certain material, and by reductions bearing in magnitude and amounting for certain armaments to the proportion of one-third." The resolution stated that, guided by the principles underlying President Hoover's declaration, (1) a substantial reduction of world armaments should be effected, applying alike to land, naval, and air arms, and that (2) a primary objective should be reduction of the means of attack.

The conference, therefore, accepted the principle of reduction instead of the mere limitation of world armaments; it recognized the interdependence of armaments; and, by advising a weakening of means of attack, subscribed to the

[22] Cf. Appendix VIII (*d*).

principle of qualitative disarmament as advocated by the American delegation on April 11.

The second part of the resolution, which recorded the specific conclusions arrived at in the first phase of the conference, also reflected several proposals previously made by the American delegation. Thus, it was agreed that the final convention would absolutely bar air attacks on civilian populations; that the caliber of heavy land artillery would be limited;[23] that chemical, bacteriological, and incendiary warfare would be prohibited.

The third part of the resolution dealt with the next phase of the conference. A strict limitation and real reduction of effectives based upon an examination of the Hoover proposals were promised. With respect to President Hoover's precise proposals concerning naval armaments, the resolution merely invited the powers which were parties to the Washington and London Naval Treaties to confer "as to possible further measures of naval reduction."

It was understood, however, that the translation of these principles into specific agreements to reduce armaments depended upon long and intricate political negotiations about all the chief questions at issue among the leading powers of Europe, America, and Asia.

4. *The Withdrawal of Germany*

The immediate consequence of the July resolution was the withdrawal of Germany from the conference. The reasons were explained in a memorandum submitted to the French Ambassador at Berlin on August 29.[24] They were, principally, that it was not clear whether the resolution applied to Germany equally with all other nations, or whether Germany was still to have the special status fixed by the Versailles Treaty. The Germans asked for a specific promise

[23] One hundred fifty-five millimeters was understood to be the maximum proposed by the American delegation.

[24] *New York Times*, September 7, 1932.

that the Disarmament Convention would replace Part V of the Versailles Treaty, putting German armaments as to "legal form" and "the duration of the treaty obligation" on the same juridical basis as those of other nations. As to the actual amount of armament allowed, the memorandum declared that for the term of the first convention (presumably ten years) Germany would be satisfied with a certain inequality in fact. But until equality in form was promised, Germany would not participate further in the Disarmament Conference.

With the German thesis responsible American officials were openly in agreement. Both Secretary Stimson and Mr. Norman H. Davis, in their statements to the House Committee on Foreign Affairs on January 6, 1932, had specifically indicated that the German nation could not exist in a state of comparative disarmament while surrounded by a group of heavily armed nations. This would lead to a condition of instability in Europe and in the world, said Secretary Stimson, in regard to which "energetic steps ought to be taken to try to carry out the original plan [of Allied disarmament] so far as it can be done." Mr. Davis had stated that "Germany cannot be kept indefinitely waiting under an implied moral obligation without maintaining a constant atmosphere of nervousness and instability which is today affecting the credit and financial structure of the world."[25]

The American proposal, made by Mr. Gibson on April 11 for qualitative disarmament, or the abolition of weapons of a peculiarly aggressive nature, was doubtless intended in part to move the conference in the direction of satisfying Germany as to equality. Later, when the American plan regarding the reduction of military effectives was put forward, the German levels of armed forces were specifically cited by the American delegates as an example upon which computation might be based.

[25] *Hearings* before the Committee on Foreign Affairs, House of Representatives, Seventy-second Congress, First Session, on H. J. Res. 163.

While these points appeared to be fully appreciated by the German delegates, they continued to demand that whatever practical differences in armed strength might continue to exist after the first World Disarmament Conference, it was necessary for other states to recognize that the same *method* should be applied to all countries alike. They argued that Germany could not be bound both by Part V of the Treaty of Versailles and by the prospective disarmament convention, and that it was impossible to apply "two sets of weights and measures" to the states participating in the conference.

No general opposition to this thesis was ever offered by the American delegation. On the contrary, it seemed to be regarded by them, as by many others, with evident sympathy. The real difficulty lay in the conviction of France that a better system of security would have to be set up before it was safe to abolish so important a part of the Versailles system. The French delegates did not dispute the equity of the German claim, and it was generally admitted that French public opinion was prepared to grant it. What the French objected to was another revision of the Versailles system, having just conceded the virtual end of reparations, without tangible progress toward a new system to take its place. In view of the revival of militarist and bureaucratic power within Germany, the French view was sympathetically regarded in British and American official circles.

The withdrawal of Germany from the Geneva conference at a time when the old military leaders dominated her policy aroused the fear that Germany would shortly denounce Part V of the Treaty of Versailles and proceed to rearm. However, though such a policy remained a live alternative, the German government realized that this was too serious a move to be undertaken without at least attempting first to reach an agreement with France. In her memorandum to the French Ambassador at Berlin on August 29, Germany had proposed to deal with the question of equality of armaments

through direct conversations. Apparently it was her intention to talk with France privately and confidentially.

The French government refused to do this and promptly published the memorandum[26] and its own reply.[27] It insisted that any change in German armaments was a matter of concern to the League of Nations, since this came within the jurisdiction of the Council of the League; that the problems involved were being worked out through the Geneva Disarmament Conference, and, finally, that all the powers signatory to the Treaty of Versailles were interested. The French reply also suggested that restricted negotiations might do injury to the rights of the United States, arguing that the benefits of the military clauses of the Treaty of Versailles were assured through the treaty of peace signed between the United States and Germany. In short, the French were determined to keep the United States an active participant in the negotiations.

President Hoover did not relish the idea of becoming too closely involved in the controversy between France and Germany. He promptly issued a statement emphasizing that the United States was interested in reducing the armaments of the world step by step, but that it was not a party to the Versailles Treaty and the limitation it imposed on German arms, and that this was a European question. The President did, however, avow that there was one phase of the matter which did concern the United States, namely, Germany's continued participation in making a success of the Geneva conference.

5. *Efforts to Placate Germany*

American activity, which had been more or less suspended since the July recess, was resumed at the end of September when Mr. Norman H. Davis returned to Europe. His arrival in London more or less coincided with a proposal by the

[26] *New York Times*, September 7, 1932.
[27] *Ibid.*, September 13, 1932.

British Prime Minister, Mr. MacDonald, that representatives of Great Britain, France, Italy, and Germany, together with an American observer, should meet in London to consider the problem raised by the correspondence between France and Germany. This correspondence had, in the meantime, been supplemented by a strong note from Sir John Simon to the German government pointing out how unfortunate it was that this grave political issue had been raised by Germany at a moment when all efforts should be directed toward restoring commercial prosperity by better coöperation between the governments.[28]

The British note had been read with enthusiasm in France. But the Prime Minister's subsequent suggestion of a Five-Power Conference in London to consider the German claim met with a cool reception. The French did not wish to talk in London; they were apprehensive about attending a meeting at which their allies, Poland and Czechoslovakia, would not be present. Their answer was in effect a refusal to go to London. But they held out the hope that within the framework of the Disarmament Conference a meeting might be held in Geneva. This suggestion was unacceptable to the Germans. They had left the Disarmament Conference, and they said that they did not propose to reënter it by the back door. Before the negotiations could be carried further, Germany was engaged in another election and the question had to be dropped until November.

This episode put the Government of M. Herriot in a quandary. It had become quite obvious from their statements that the British were prepared to go a long way toward granting Germany's demands for a change in the military provisions of the Treaty of Versailles, however much they might be opposed to the tactics that Germany was using in order to obtain this objective. It was equally clear that the Italian government was sympathetic with the German point of view. M. Herriot, on the other hand, was politically in no

[28] *New York Times*, September 19, 1932.

position to make any substantial concessions to Germany with respect to armaments. His personal irritation at their demands was only too apparent. In French eyes Germany was in the hands of a band of militarists who were disposed to use every concession to make new demands. M. Herriot quite naturally felt that he had made a large concession to Germany in agreeing at Lausanne to the practical cancellation of reparations. What, he asked, had been the result? Germany had waited hardly longer than a month before insisting that the military chapter of the Treaty of Versailles should be canceled along with the reparations chapter.

French public opinion was inflamed against Germany. At the same time M. Herriot saw the prospect that France might be isolated if both Great Britain and Italy sided with Germany. To meet this situation, he decided that the safest course to pursue was to produce a French disarmament plan. His purpose was to set forth in detail the French thesis regarding security and to link with it certain concessions to Germany regarding her armaments. This plan was presented to the Disarmament Conference on November 14.[29] It marks an important step in French policy. It included the proposal that the armies of Continental Europe should be reduced to a uniform general type, that of a national short-service army with limited effectives. It proposed that these armies should not possess powerful mobile artillery and tanks adapted to attack on permanent fortifications.

In these respects and in certain others, the plan involved changes in the Treaty of Versailles and substantial reductions in the armies of Europe. The realization of the plan was, however, made dependent upon conditions which, even when viewed optimistically, presented many serious obstacles. The proposal to create an international force, which had been offered by the Tardieu Government in February, was repeated with some modifications. In addition, the plan called for treaties of mutual assistance among the states of Conti-

[29] Conf. D. 146.

nental Europe and for an agreement that the Council of the League should by a majority vote decide when the contingents forming a part of the international force should be used to assist a state that was the victim of an aggression.

This phase of the French Plan did not directly concern the United States. The French had in mind an arrangement which in effect would supplant Article XVI of the Covenant of the League. But England and the United States were not forgotten by those responsible for drafting the French Plan. England was called upon to define its position under Article XVI. Under Chapter I of the plan, all the powers in the conference, including the United States, were called upon to take part in implementing the Pact of Paris. The authors of the French Plan had endeavored to analyze the principles of Secretary Stimson's speech of August 8 and to codify what they considered to be possible deductions from that speech. Chapter I of the French Plan containing these ideas deserves to be quoted in full because it embodied the maximum French hopes as to the eventual American contribution to its program for security.

All the Powers taking part in the work of the Conference shall be called upon to establish in an effective manner the following principles, which are generally recognized to be a necessary consequence of the Pact for the Renunciation of War:

(*a*) Any war undertaken in breach of the Paris Pact is a matter of interest to all the Powers and shall be regarded as a breach of the obligations assumed towards each one of them;

(*b*) In the event of a breach or threat of breach of the Paris Pact, the said Powers shall concert together as promptly as possible with a view to appealing to public opinion and agreeing upon the steps to be taken;

(*c*) In application of the Pact of Paris outlawing war, any breach of that Pact shall involve the prohibition of direct or indirect economic or financial relations with the aggressor country. The Powers shall undertake to adopt the necessary measures to make that prohibition immediately effective;

(*d*) The said Powers shall declare their determination not to recog-

nize any *de facto* situation brought about in consequence of the violation of an international undertaking.[80]

Many of these provisions of the French Plan went substantially beyond the intended meaning of Secretary Stimson's speeches. Furthermore, they endeavored to formulate rigidly ideas which were still undergoing development and to spell out implications which in the American view could only be worked out by a process of trial and error. The administration in Washington felt that any attempt to codify the Stimson doctrine in a treaty which the Senate would have to pass upon as a precise formula would fail. The American attitude was empirical and cautious. The French, on the other hand, felt that formulæ were of little value unless they were embodied in a treaty with all possible future contingencies adequately covered. Such a treaty was hardly conceivable to the Americans, and even England, it appeared, was reluctant to add to her burden of responsibility under the Covenant and the Locarno treaties.

For these reasons, and also because of the inherent difficulty of working out the organization of Continental Europe which France had proposed, the outlook for the French Plan was not bright. The assumption was that it would be debated at Geneva in 1933 and would be presented by France as the condition of any substantial concession to Germany. Thus there was a long road to travel toward a settlement of the Franco-German controversy over armaments. Nevertheless, France had recognized in principle that Germany could not forever be bound by the military clauses of Versailles.

While these public proposals were being discussed, there were private conversations looking to the holding of the Five-Power Conference which Mr. MacDonald had suggested. Mr. Norman H. Davis, after conducting discussions in London, Paris, and Rome, found a general willingness to consider, through private conversations among a limited number of powers, the basic problems of the Disarmament

[80] Conf. D. 146.

Conference. These conversations, it was agreed, were to be directed not only to dealing with the question of Germany's return to the conference, but to issues with which the United States was more immediately concerned, namely, with the actual reduction of armaments. The laborious process of trying to persuade the fifty-odd nations represented at Geneva to agree on the simplest formulæ had at times reduced the conference to a mere debating society. It was felt that if results were to be achieved, the principal military powers of the world had to take the lead. For their veto could kill any measure of disarmament and their agreement would tend to bring the other powers together.

Germany, though formally withdrawn from the conference, found it possible to take part in the private conversations. German representatives had to be in Geneva anyway to attend the sessions of the League dealing with the Manchurian question.[81]

6. *The Five-Power Conversations (December 2–11, 1932)*

Late in November, during the preliminary negotiations leading up to the agreement by the principal powers to hold conversations in Geneva regarding disarmament and the return of Germany to the Disarmament Conference, Mr. Davis had suggested to M. Herriot and M. Paul-Boncour and then to Mr. MacDonald and Sir John Simon that a short-term convention should be adopted at once. It would run for three years, say until January 1, 1936, and it would thus coincide with the term of the Washington and London Naval Treaties. The object of the convention would be to register the maximum agreement on the limitation and reduction of armaments possible at that time without foreclosing greater reductions which might subsequently be feasible. The Americans, in making this proposal, desired,

[81] Our account of the Manchurian question stops on Nov. 21, with the presentation of the Lytton Report, and therefore does not cover the sessions referred to above.

first, to show the world that the powers could agree on something and, second, to provide a breathing-spell during which the French views on security and the German conception of arms equality might be reconciled.

The conversations[82] began at Geneva on Friday, December 2, and were concluded with the signature of a five-power declaration on December 11. The Chairman was Mr. MacDonald. The Americans proposed that an agreement be reached on certain measures of immediate reduction and limitation and on the general principles to be embodied in a general disarmament treaty which would be signed and ratified before January 1, 1937. In this convention Germany would receive the formal assurance that the powers would solve the problem of equality of rights before that date.

The French then stated that the Herriot Cabinet had come to the decision that "France agrees that the principle of equality of rights be accorded to Germany and other states disarmed by treaty, within a general system which shall provide for the security of France and of all other states." This was a notable advance over the position of the Tardieu Cabinet. For that Cabinet had been prepared only to include the Versailles provisions in regard to Germany in the final disarmament treaty. The Herriot Cabinet was willing to concede real equality attained by reduction, provided principles of security were adopted.

The question was whether Germany would accept a promise of equality of rights to be worked out in this period. The essence of the German claim for equality was (1) that German armaments should be limited for the same period by the same treaty that limited the armaments of other nations,

[82] The principal representatives were: for Great Britain, Mr. J. Ramsay MacDonald, Sir John Simon and the Hon. Alexander Cadogan; for France, M. Edouard Herriot, M. Joseph Paul-Boncour and M. René Massigli; for Germany, Baron Konstantin von Neurath, Baron Ernst von Weiszaecker, Herr Hans Frohwein and Herr Hans Hermann Voelckers; for Italy, Signor Augusto Rosso and Baron Pompeo Aloisi; for the United States, Mr. Norman H. Davis, Mr. Hugh R. Wilson and Mr. Allen Dulles.

thus abolishing the legal form of Part V of the Versailles Treaty; and (2) that the principle of equality of status should be given immediate practical effect on the qualitative side with respect to war material, replacements, and military organization.

This was more than the French or the British were prepared to concede, since it meant in effect that Germany would begin to rearm. The French insisted particularly that the Germans be contented with a recognition of the principle of equality, as that was what they had demanded as the price of their return to the conference. The Germans insisted that they must know what the Herriot formula meant. The French retorted that they would recognize the principle but that the conference must decide how it was to be applied, and that the decisions must be coupled with a detailed application of the French principle of security. Finally, after much negotiation, a formula was proposed reading as follows:

> The governments of the United Kingdom, France, and Italy have declared that one of the principles that should guide the Conference on Disarmament should be the grant to Germany, and to the other powers disarmed by treaty, of *equality of rights in a system which would promise security for all nations*, and that the principle should find itself embodied in the convention containing the conclusions of the Disarmament Conference.
>
> This declaration implies that the respective limitation of armaments of all states should be included in the proposed Disarmament Convention. *It is clearly understood that the methods of application of such equality of rights will be discussed by the Conference.*[33]

The formula was accepted, and Germany agreed to return to the conference.

7. *Conversations on Naval Questions*

Contemporaneously with the negotiations described above, discussions were carried on during the autumn dealing with the further limitation and reduction of navies. These con-

[33] Italics are the authors'. Cf. Appendix VIII (*e*).

versations had two main objectives: to bring France and Italy under the London Naval Treaty, and to work out a basis on which Great Britain and the United States could reduce their navies by something like the one-third called for in the Hoover Plan. It soon transpired that the possibilities of agreement between Great Britain and the United States depended upon the limitation of French and Italian cruiser and submarine strength and upon Japanese naval plans.

As the conversations were private and informal and as no conclusions were reached, it is not possible for us to describe them here. It is, however, known that they reached a point where the British and the Americans presented a memorandum to the French and the Italians which, if accepted, would have completed the London Naval Treaty. Before the document could be presented formally to the French government, the Herriot Cabinet was overthrown in the French Chamber on the question of payment of the war debts to the United States. Nevertheless, it appeared that material progress had been made toward a naval agreement among Great Britain, the United States, France, and Italy. On the other hand, the attitude of Japan in the Far East, and her demands for material improvement in her relative naval position, indicated that substantial reduction of naval armaments was not yet in sight.

EPILOGUE

THE reader who has followed this history of the United States in world affairs during 1932 will see that up to the end of the year none of the great issues, with the exception of German reparations, had definitely been settled. The world-wide depression was running its course unchecked by any common action of the nations. There was, however, the promise of a World Economic Conference in 1933, and to that conference the great international economic problems relating to tariffs and currencies were to be submitted. The problem of the war debts had not been settled. There was, however, some promise that the problem would be reviewed. In South America the collective effort to preserve the peace had not preserved it. In the Far East the question whether Japan would agree to a peaceable settlement with China was undetermined. The problem of armaments had been explored, some agreement in principle had been reached, the conference had survived, but no actual limitation or reduction was instituted.

In the United States the national elections had resulted in the defeat of the party which had administered American affairs throughout the post-war era. Following its defeat, there was an interregnum during which the outgoing and incoming Administrations were equally powerless to make decisions. The unsettled problems discussed in these pages were left as the heritage of the new Administration.

How far there was to be continuity in American policy, and in what respects there was to be innovation, were questions for the future.

COUNCIL HOUSE,
New York City,
January 3, 1933.

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————. ————. Series XI. (C.428.M.178.1931.IX.)

Part I: Index containing a detailed analysis of the Documents of the Preparatory Commission (Series I–X, Reports of Sub-Commissions A and B, and Reports of the Committee of Experts on Budgetary Questions, given below).

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————. Draft Disarmament Convention, Geneva, December 9, 1930. (C.687.M.280.1930.IX.)

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————. ————. Addendum. (Conf. D./C.A.8.Addendum.)

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An excellent background study.

APPENDICES

I. (*a*) Vote in the Senate and House of Representatives on the Ratification of the Hoover Moratorium.
(*b*) Various Estimates of German Payments on Reparation Account.
(*c*) Payments Due the United States Postponed in 1931–32 under the Hoover Moratorium, and Payments Falling Due in the Fiscal Year 1932–33.
(*d*) Excerpts from the Agreement with Germany Negotiated at Lausanne, June 16–July 9, 1932.

II. (*a*) External Debts of Latin American Countries.
(*b*) Cumulative Capital Movement between the United States and Other Countries, 1922–1931.
(*c*) Policy of the Department of State Concerning Foreign Loans.
(*d*) A Note on Germany's Private Debts.

III. (*a*) Countries Suspending the Gold or Gold Exchange Standard and Adopting Exchange Control.
(*b*) Import Quotas in Operation in Continental Europe.
(*c*) A Note on the Conference at Stresa.
(*d*) Foreign Trade—Quantity Index.
(*e*) Trade of Great Britain with Foreign Countries and with Other Parts of the British Empire.
(*f*) Balance of International Payments of the United States, 1922–31.

IV. Passages from Republican and Democratic Platforms Dealing with Foreign Policy and the Tariff.

V. (*a*) Indices of Production in Important Countries.
(*b*) Commodity Prices in Important Countries.
(*c*) Unemployment in Important Countries.
(*d*) Yield and Value of Staple Crops, United States, 1928–31.
(*e*) Significant Business Indices, United States, 1929–31.
(*f*) Trend of Dividend Payments and Railway Earnings, United States, 1930–32.

VI. Note of the Nineteen American Governments to Bolivia and Paraguay, August 3, 1932, Invoking the Stimson Doctrine.
VII. (*a*) The Findings of the Lytton Commission.
(*b*) Text of the Treaty between Japan and "Manchukuo."
VIII. (*a*) Arms Limitation: The First American Proposal.
(*b*) Arms Limitation: The Second American Proposal.
(*c*) Arms Limitation: President Hoover's Proposal.
(*d*) Resolution Adopted by the Conference for the Reduction and Limitation of Armaments at Geneva, July 23, 1932.
(*e*) The Five-Power Declaration of December 11, 1932.
IX. Chronology of Important Events Affecting American Foreign Relations, 1932.

APPENDIX I

(a) VOTE IN THE SENATE AND HOUSE OF REPRESENTATIVES ON THE RATIFICATION OF THE HOOVER MORATORIUM

State	House, Dec. 18, 1931 Members Voting Yea	Nay	Senate, Dec. 22, 1931 Members Voting Yea	Nay
Alabama	3	7	2	
Arizona	1		2	
Arkansas	3	4		1
California	11		1	1
Colorado	1	1	1	
Connecticut	5		2	
Delaware	1		2	
Florida	2	2	2	
Georgia	5	7	2	
Idaho	2		2	
Illinois	22	2	2	
Indiana	6	7	2	
Iowa	10		2	
Kansas	7	1	2	
Kentucky	4	7	1	
Louisiana	6	2	1	
Maine	4		2	
Maryland	6		2	
Massachusetts	16		2	
Michigan	13		1	
Minnesota	9			1
Mississippi	2	6	1	
Missouri	6	10	2	
Montana	1	1	2	
Nebraska	4	2		1
Nevada	1			
New Hampshire	1		1	
New Jersey	11		2	

State	House, Dec. 18, 1931 Members Voting Yea	Nay	Senate, Dec. 22, 1931 Members Voting Yea	Nay
New Mexico	1		2	
New York	42	1	2	
North Carolina	7	2	2	
North Dakota	3			2
Ohio	19	3	2	
Oklahoma	1	7		1
Oregon	3		2	
Pennsylvania	31	1	2	
Rhode Island	3		1	
South Carolina	3	2	2	
South Dakota	2	1		2
Tennessee	4	5	1	1
Texas	4	13	1	1
Utah	2		2	
Vermont	2		2	
Virginia	5	5	1	
Washington	4	1	1	1
West Virginia	6		1	
Wisconsin	10		2	
Wyoming	1		2	

Recapitulation

Vote in the House: For the moratorium, 318; against, 100.
Vote in the Senate: For the moratorium, 69; against, 12.

(*b*) VARIOUS ESTIMATES OF GERMAN PAYMENTS ON REPARATION ACCOUNT

(In millions of reichsmarks)

	Before Sept., 1924	Dawes and Young Plans	Total
Reparation Commission	10,027	11,096	21,123
Institute of Economics	26,000	11,096	37,096
German Government	56,577	11,096	67,673

These wide variations in the estimates are due mainly to different methods of valuing the properties transferred and to the omission from the lower estimates of such items as the costs of military occupation, which do not constitute reparations proper.

(*c*) PAYMENTS DUE THE UNITED STATES POSTPONED IN 1931–32 UNDER THE HOOVER MORATORIUM, AND PAYMENTS FALLING DUE IN THE FISCAL YEAR 1932–33

1. Payments from Countries Formerly Receiving German Reparations

	Payments Postponed 1931–32	Payments Due in 1932–33
Belgium	7,950,000	8,450,000
France	50,000,000	60,000,000
Great Britain	159,520,000	171,500,000
Greece	1,109,080	1,149,300
Italy	14,706,125	14,790,875
Poland	7,486,835	7,987,042
Rumania	800,000	1,000,000
Yugoslavia	250,000	275,000
2. Payments from Other Debtor Countries		
Austria	287,556	287,556
Czechoslovakia	3,000,000	3,000,000
Estonia	600,372	640,692
Finland	312,295	334,827
Hungary	69,342	68,989
Latvia	250,653	267,813
Lithuania	224,545	224,477
Total	246,566,803	269,976,571
Germany, Army Costs	6,000,000	6,000,000
Grand Total	252,566,803	275,976,571

(*d*) EXCERPTS FROM THE AGREEMENT WITH GERMANY NEGOTIATED AT LAUSANNE, JUNE 16–JULY 9, 1932

Declaration

The powers signatory of the present agreement have assembled at Lausanne to deal with one of the problems resulting from the war, with the firm intention of helping to create a new order, permitting the establishment and development of confidence between the nations in a mutual spirit of reconciliation, collaboration and justice.

They do not claim that the task accomplished at Lausanne, which will completely put an end to reparations, can alone assure that peace which all the nations desire. But they hope that an achievement of such significance and so arduously attained will be understood and appreciated by all the pacific elements in Europe and the world, and that it will be followed by fresh achievements.

These further successes will be more readily won if the nations will rally to this new effort in the cause of real peace, which can only be complete if it is applied both in the economic and in the political sphere and rejects all possibility of resort to arms or to violence.

The signatory powers will make every effort to resolve the problems which exist at the present moment or may arise subsequently in the spirit which has inspired the present agreement.

Article 1

The German government shall deliver to the Bank for International Settlements German government 5 per cent. redeemable bonds, to the amount of three milliard reichsmarks gold of the present standard of weight and fineness, to be negotiated under the following arrangements:—

(1) The Bank for International Settlements shall hold the bonds as trustee.

(2) The bonds shall not be negotiated by the Bank for International Settlements before the expiry of three years from the signature of the present agreement. Fifteen years after the date of the said signature the bonds which the Bank for International Settlements has not been able to negotiate shall be canceled.

(3) After the above period of three years the Bank for International Settlements shall negotiate the bonds by means of public issues on the markets as and when possible, in such amounts as it thinks fit, provided that no issue shall be made at a rate below 90 per cent.

The German government shall have the right at any time to redeem at par, in whole or in part, the bonds not yet issued by the Bank for International Settlements. In determining the terms of issue of the bonds, the Bank for International Settlements shall take into account the desirability of giving to the German government the right to redeem the bonds after a reasonable period.

(4) The bonds shall carry interest at 5 per cent. and sinking fund

at 1 per cent. as from the date on which they are negotiated. They shall be free of all German taxes, present and future.

(5) The proceeds of the bonds, as and when issued, shall be placed to a special account, the allocation of which shall be settled by a further agreement in due course between the governments, other than Germany, signatory to the present agreement.

(6) If any foreign loan is issued by the German government, or with its guarantee, at any time after the coming into force of the present agreement, the German government shall offer to apply up to the equivalent of one-third of the net cash proceeds of the loan raised to the purchase of bonds held by the Bank for International Settlements. The purchase price shall be such that the net yield on the bonds so purchased would be the same as the net yield of the loan so raised. This paragraph does not refer to loans for a period of not more than twelve months.

(7) If, after five years from the signature of the present agreement, the Bank for International Settlements considers that the credit of the German government is restored, but the quotations of its loans remain none the less below the minimum price of issue fixed under paragraph (3) above, the minimum price may be varied by a decision of the Board of the Bank for International Settlements, which decision shall require a two-thirds majority.

Further, at the request of the German government, the rate of interest may be reduced below 5 per cent. if issues can be made at par.

(8) The Bank for International Settlements shall have power to settle all questions as to the currency and denomination of bonds issued, and also all questions as to charges and costs of issue, which it shall have the right to deduct from the proceeds of the issue. In considering any questions relating to the issue of bonds, the Board of the Bank for International Settlements shall take the advice of the President of the Reichsbank, but decisions may be made by a majority vote.

Article 2

On its coming into force the present agreement will put to an end and be substituted for the reparation régime provided for in the agreement with Germany, signed at The Hague on the 20th January, 1930, and the agreements signed at London on the 11th August, 1931, and at Berlin on the 6th June, 1932; the obligations resulting from the present agreement will completely replace the former

obligations of Germany comprised in the annuities of the "New Plan."[1]

Articles 3, 4, 5, 6

[Enumerate in detail the sections of previous agreements which are abrogated and the sections which are to remain in force, the latter being chiefly those providing for the establishment of the Bank for International Settlements].

Article 7

The signatory governments declare that nothing in the present agreement diminishes or varies or shall be deemed to diminish or vary the rights of the bondholders of the German External Loan, 1924, or of the German Government International 5½ per cent. Loan, 1930.

Any necessary adaptation of the machinery relating to the manner in which the obligations of the German government with respect to the German External Loan, 1924, and with respect to the German Government International 5½ per cent. Loan, 1930, will be discharged will be subject to mutual arrangement between the German government, on the one hand, and the Bank for International Settlements, Fiscal Agent of the Trustees of the German External Loan, 1924, and Trustee of the German Government International 5½ per cent. Loan, 1930, on the other hand.

Article 8

The present agreement will, on its coming into force, be notified by the government of the French Republic to the Bank for International Settlements with a view to the application by the bank of the provisions which affect it; the said government will also inform the bank, for the purposes of its statutes, that the "New Plan" is no longer in effect.

Article 9

Any disputes, whether between the governments signatory of the present agreement, or between one or more of those governments and the Bank for International Settlements, as to the interpretation or application of this agreement shall be referred to the Arbitration Tribunal set up under Article 15 of The Hague Agreement with

[1] More generally known as the Young Plan.

Germany. The relevant provisions of that Article and of Annex XII of the said agreement will for this purpose be applicable.

Articles 10 and 11

[Prescribe the routine for the ratification of the agreement].

Source: *Final Act of the Lausanne Conference* (Cmd. 4126).

APPENDIX II

(*a*) EXTERNAL DEBTS OF LATIN AMERICAN COUNTRIES

Country	*Amount* (in national currency)	*Amount* (computed in dollars)[a]
Argentina	995,951,000	422,781,199
Bolivia	172,982,274	63,138,530
Brazil	[b]	520,291,028
Chile	3,685,289,980	448,499,790
Colombia	83,474,962	81,246,180
Costa Rica	74,406,094	18,601,523
Cuba	60,344,000	60,344,000
Dominican Republic	16,592,500	16,592,500
Ecuador	114,836,982	22,967,396
El Salvador	34,713,900	17,356,950
Guatemala	11,763,046	11,763,046
Haiti	71,645,808	14,329,161
Honduras	8,523,876	4,261,938
Mexico	946,958,898	472,059,010
Nicaragua	2,580,996	2,580,996
Panama	15,646,500	15,646,500
Paraguay	3,540,775	3,416,139
Peru	359,509,003	100,662,520
Uruguay	142,867,484	147,753,551

[a] The amounts when reported in national currencies are converted into dollars at the par of exchange, inasmuch as the external debts are usually payable in gold and the exchange depreciation does not reduce the sums payable.

[b] The Brazilian foreign debt is reported in pounds, dollars and francs.

Sources: *Latin American Financial Developments during 1931* (U. S. Department of Commerce, Trade Information Bulletin No. 810); *Revenues, Expenditures and Public Debts of the Latin American Countries, 1931* (Pan-American Union, Finance Series No. 3).

(*b*) CUMULATIVE CAPITAL MOVEMENT BETWEEN THE UNITED STATES AND OTHER COUNTRIES

1922–1931

(In millions of dollars)

	Long-Term Investments			*Short-Term Loans*	
	U. S. A. Abroad	Foreign in U. S. A.	Net Capital Outflow	Net Inflow	Total Net Outflow
1922..	756	3	753	375	378
1923..	966	243	723	378	345
1924..	1,710	254	1,456	594	862
1925..	2,463	447	2,016	533	1,483
1926..	3,150	594	2,556	892	1,664
1927..	4,003	752	3,251	892	2,359
1928..	5,198	1,229	3,969	666	3,303
1929..	5,963	1,675	4,288	679	3,609
1930..	6,308	1,725	4,583	194	4,389
1931..	6,143	1,778	4,365	571[a]	4,936

[a] Outflow.

Source: *The Balance of International Payments of the United States in 1931* (U. S. Department of Commerce, Trade Information Bulletin No. 803).

(*c*) POLICY OF THE DEPARTMENT OF STATE CONCERNING FOREIGN LOANS

The Department's Official Statement of January 7, 1932

The Department of State has not passed on the security or the merits of foreign loans. The sole aim of the department has been in the interest of the citizens of the United States in connection with its foreign relations.

These ideas have been repeatedly communicated to the public and the public has been made to understand that the department's action carried no implication as to government approval of loans. In fact, it may be said that no foreign loan has ever been made which purported to have the approval of the American government as to the intrinsic value of the loan.

The arrangement in accordance with which banks or other institutions publicly offering foreign securities for sale inform the American government of contemplated issues in advance of sale arose after the war, when the American capital market assumed leading importance as a source of financial aid and reconstruction.

President Harding early in his administration expressed informally to American bankers the desire of the government to be informed. In order to clarify the government's purposes and to establish uniformity of procedure, the Department of State on March 3, 1922, issued the public announcement attached[1] requesting that communications regarding loans which the bankers proposed to issue should be in writing and addressed to the Secretary of State. The procedure of consultation between various interested branches of the government has varied slightly from time to time, as well as the range of lending activity of which the department has wished to take notice, and the phrases employed in replying to the bankers. But the principles expounded in this first public notice have remained fully in force, and continue to represent accurately the basis, the purposes and the limitations of department practice.

On the whole, the department does not ask that it be notified of purchases of foreign securities without intention of public sale, nor of issues of stock or listing of stock of foreign enterprises on American stock exchanges. Similarly, security issues of American enterprises, the proceeds of which are employed to acquire or operate properties abroad, have generally not been referred to it for notice. The practice of notifying the department of contemplated issues of securities for foreign private industrial enterprises has, on the whole, been less strictly observed and construed than that of notification of government security issues.

The practice was first established with the idea of safeguarding essential American interests that might be affected by the process of foreign investment; it has been maintained as an informal, comparatively light and flexible check against the possibility that contemplated loan issues might run counter to some governmental policy or aim.

At every opportunity the department has made clear to the bankers and interested public that this practice of advance notification to the department and the absence of objection and comment by the department must in no way be considered or portrayed as approval of the loan. The department has never assumed responsibility for the wisdom or worth of the loans of which it was informed. Its responses avoid all judgment of the matters of business risk involved and in no way represent measurement of the merit of any foreign loan as a business proposition either for the bankers or investors. In various instances the department, without assuming

[1] This announcement is not reprinted here, as its content is fully indicated above.

authority or taking responsibility, has pointed out to banking groups features of contemplated loan arrangements which seemed obscure or unsound, or has called their attention to some feature of the financial or economic position of the borrowing country or enterprise that might be overlooked, but all this was done merely as information and without assumption of responsibility.

This attitude has perhaps been best stated in the report of the Secretary of the Treasury of 1926:

> The question of the soundness of a particular loan is not one upon which the federal government should pass, but it is the banker floating the loan in this country who must decide this question in the first instance, and it is the investor using his savings to acquire the security who must finally decide whether or not the risk is to be accepted.

Furthermore, the department has guarded against the possible employment by banking houses of the exchange of communications between them and the department in such a way as to assist in the sale of securities. It instructed all institutions that announcements offering foreign loans for sale should not state that they are contingent upon an expression from the Department of State regarding them, and that prospectuses and contracts should contain no reference to the attitude of the department.

Furthermore, as was stated in the report made by the Secretary of State in response to Senate Resolution No. 293 (see Senate Document No. 187, 71st Congress, 2d Session), in its replies the Department of State has often been the spokesman of considerations advanced by other executive departments of this government. For example, the Department of State carried out the policy recommended by the World War Foreign Debt Commission of objections to loans to nations which had not funded their national indebtedness to the United States.

In ordinary practice the form of words employed by the Department of State in acknowledging the advance notice of contemplated loan issues has been, with immaterial variation, as follows:

> In the light of the information before it, the Department of State offers no objection to the flotation of this issue in the American market.

Or, in the very infrequent instances where some reason led the department to the contrary judgment, the department, usually after explaining the reason therefor, employed in general merely the negative of this form:

> You will, therefore, appreciate that this department is not in a position to indicate that it perceives no objection to the financing to which you refer.

This form of reply was, after a first brief period, regularly supplemented by the further paragraph:

> You of course appreciate that, as pointed out in the department's announcement of March 3, 1922, the Department of State does not pass upon the merits of foreign loans as business propositions nor assume any responsibility in connection with such transactions, also that no reference to the attitude of this government should be made in any prospectus or otherwise.

Beginning August, 1929, it was decided to expedite the procedure of consultation with other departments of this government, and to simplify the forms used. Replies to bankers' letters were reduced merely to a brief paragraph of acknowledgment, followed by the sentence:

> In reply you are informed that the Department is not interested in the proposed financing.

In the case of Germany, where the German financial authorities endeavored to guard and control borrowing by public authorities, and set up for this purpose an advisory board, which, however, under the German constitution, could not be given mandatory powers, the department took cognizance of this situation and also of certain other special considerations, and its replies to the bankers called attention to various special features of the German situation. The replies therefore took on a somewhat more extended form, preserving, however, the notice to the effect that the department did not pass upon the merits of loans as business propositions nor assume any responsibility in connection with them. A somewhat similar policy was observed with respect to Austrian loans for a limited time.

Source: Department of State Press Release, January 7, 1932.

(*d*) A NOTE ON GERMANY'S PRIVATE DEBTS

In August, 1932, the German Bureau of Statistics issued a revised estimate of Germany's foreign indebtedness. The total figure as of February 29 was put at 26,000 million reichsmarks (about 6,330 million dollars), of which 6,000 million reichsmarks represented direct investments by foreigners in German real estate, shares, etc. The remaining 20,000 million reichsmarks were distributed as follows:

FOREIGN INDEBTEDNESS OF GERMANY, FEBRUARY 29, 1932

(In millions of reichsmarks)

Creditor Countries	*Short-Term*	*Long-Term*	*Total*	*Percentage of Total*
United States..	3,227	5,165	8,392	40.7
Netherlands....	1,661	1,914	3,575	17.3
Switzerland....	1,615	1,146	2,761	13.4
Great Britain..	1,286	1,129	2,415	11.7
France.....	474	482	956	4.6
Sweden.....	136	167	303	1.5
Belgium.....	119	80	199	1.0
Czechoslovakia	157	18	175	.9
Italy.....	73	74	147	.7
Other countries[a]	1,405	295	1,700	8.2
Total.....	10,153	10,470	20,623	100.0

[a] Inclusive of deposits of the Bank for International Settlements in Germany and of the credit granted to the Reichsbank by the foreign central banks under the auspices of the Bank for International Settlements.

As the table shows, the interest of the United States in private loans to Germany was more than twice that of any other nation and more than three times that of any other nation except the Netherlands. The amount invested by American citizens in these private loans (about 1,999 million dollars) was considerably more than our entire war loan to Italy, more than half our loans to France both before and after the Armistice, and nearly half that portion of our loan to Great Britain which remained unpaid when Congress reconvened in December, 1932.

APPENDIX III

(*a*) COUNTRIES SUSPENDING THE GOLD OR GOLD EXCHANGE STANDARD AND ADOPTING EXCHANGE CONTROL

Country	*Gold or Gold Exchange Standard Suspended*	*Exchange Control Established*
Argentina	December 16, 1929	October 13, 1931
Australia	December, 1929	None
Austria[a]	October 9, 1931	October 9, 1931
Bolivia	September 23, 1931	1931
Brazil	October 17, 1930	November 22, 1930
Bulgaria[a]	October 15, 1931	October 15, 1931
Canada	October 19, 1931	None
Chile	April 20, 1932	July 30, 1931
Colombia	December 4, 1931	September 24, 1931
Costa Rica	January, 1932	January 16, 1932
Czechoslovakia[a]	October 3, 1931	October 3, 1932
Denmark	September 29, 1931	October 18, 1931
Ecuador	February 8, 1932	May 2, 1932
Egypt	September 21, 1931	[c]
Estonia	October 24, 1931	October 24, 1931
Finland	October 12, 1931	[b]
Germany[a]	July 13, 1931	July 13, 1931
Greece	April 27, 1932	September 28, 1931
Hungary[a]	July 17, 1931	July 17, 1931
India	September 21, 1931	[c]
Irish Free State	September 21, 1931	[c]
Japan	December 13, 1931	July 1, 1932
Latvia[a]	October 8, 1931	October 8, 1931
Mexico	July 25, 1931	None
New Zealand	August, 1914	[b]
Nicaragua[a]	November 13, 1931	November 13, 1931
Norway	September 29, 1931	Unofficial
Paraguay	[d]	June 29, 1932
Persia	[e]	March, 1930

Country	*Gold or Gold Exchange Standard Suspended*	*Exchange Control Established*
Peru	May 15, 1932	None
Portugal	January 1, 1932	October 21, 1922
Rhodesia, N. & S.	October 12, 1931	None
Rumania[a]	May 18, 1932	May 18, 1932
Russia	August 9, 1914	[e]
Salvador	October 7, 1931	None
Siam	May 11, 1932	[c]
Spain	[e]	[e]
Sweden	September 29, 1931	Unofficial
Turkey	[e]	December, 1929
United Kingdom	September 21, 1931	[b]
Uruguay	August, 1914	May 29, 1931
Venezuela	[e]	Unofficial
Yugoslavia[a]	October 7, 1931	October 7, 1931

[a] Not officially but practically off gold or gold exchange standard because of currency or exchange regulations.

[b] In effect only temporarily.

[c] Currency maintained on a sterling-exchange basis and fluctuates with the British pound.

[d] Currency pegged to Argentine peso.

[e] No date assignable.

Source: *Foreign Financial News*, October 12, 1932 (U. S. Department of Commerce, Special Circular No. 379).

(*b*) IMPORT QUOTAS IN OPERATION IN CONTINENTAL EUROPE

As of October 1, 1932

Austria:

Many important items: Tires, furniture, shoes, lard, apples, flour, fabrics, etc. Based on percentage of imports in previous years; not allotted by countries.

Belgium:

Leather shoes, allotted by countries. Automobiles with monthly allotments to importers equal to their imports in corresponding month of 1931.

Czechoslovakia:

Automobiles, 1,000 annually, by treaty with France. Movie films. Motor fuel must contain at least 20 per cent of domestic alcohol.

Denmark:

Wines and spirits.

Finland:

Imports of rye, rye flour and rolled oats limited to certain percentages of domestic articles milled or purchased.

France:

Quotas on about one-third of import schedule—mostly allotted quarterly by countries on basis of previous imports. Wheat imports limited to 3 per cent of amount milled. Imported gasoline must have proportion of domestic alcohol added.

Germany:

Movie films. Quotas proposed, principally for agricultural products. Imported wheat limited to 3 per cent of amount milled. Ten per cent of domestic alcohol must be purchased for all gasoline imported.

Greece:

Import quotas, not allotted by countries, on practically all goods, divided among importers on basis of their average imports in last three years.

Italy:

Certain French and Spanish goods. Imported wheat must be mixed with percentage domestic wheat. Imported gasoline must be mixed with proportion of domestic alcohol, to use annual fixed amount of alcohol.

Latvia:

Considerable list of goods still under quota. List recently greatly curtailed.

Netherlands:

Certain textile products, shoes, bicycles, tires, ceramics, beef and veal subject to quotas, allotted by countries on basis of previous imports. Wheat flour must be mixed with 25 per cent domestic flour; margarine with 25 per cent domestic butter.

Norway:

Imported margarine must have a small percentage of domestic butter added.

Poland:

Quotas allotted by countries affect number of products, including apples, sausage casings, sewing machines, electrical apparatus, knit goods, trimmings, etc.

Portugal:

Specified amounts of wheat and flour admitted when harvest is insufficient. Special proportions of domestic coal must be used in industries and by railways. Quotas authorized but not yet applied.

Spain:

Specified amounts of wheat admitted from time to time. Various quotas authorized in answer to others' quotas and exchange restrictions—not yet applied.

Sweden:

Imported wheat or rye, and their products must be mixed with like domestic article in specified proportions.

Switzerland:

Import quotas on one-sixth of tariff items, affecting large part of total import trade. Allotted to principal supplying countries in accordance with normal imports, and with emphasis upon individual trade balances, but amounts not made public. When quotas filled, some goods dutiable at higher rates; others prohibited.

Turkey:

Import quotas on about two-thirds of tariff items in an effort to reduce imports and equalize trade balances. Not allotted by countries—filled in order of arrival of goods. Imports not under quota prohibited. Quotas for 4th quarter 1932 considerably enlarged.

Yugoslavia:

Motion picture imports limited to 1,000 meters for every 70 meters locally produced. Alternative is high fee used to stimulate domestic industry.

Source: Division of Foreign Tariffs, Bureau of Foreign and Domestic Commerce, U. S. Department of Commerce.

(c) A NOTE ON THE CONFERENCE AT STRESA

One of the decisions reached at Lausanne in July was that a special conference should be summoned to consider the economic and financial problems of Central and Eastern Europe and to formulate a program of reconstruction. This conference was in session at Stresa, Italy, from September 5 to September 20, with eighty delegates from fifteen nations in attendance.[1] It was charged with the duty of submitting to the Commission of Inquiry for European Union at its next session proposed measures for (1) overcoming existing transfer difficulties and eventually eliminating the systems of exchange control, and (2) reviving the trade of these countries and meeting their problems due to the low price of their agricultural products.

It was understood at the beginning of the conference that in view of the most-favored-nation clauses in so many commercial treaties the rights of "third countries" should remain reserved in any trade agreements which might be recommended. It was here that the conference touched upon the interests of the United States. Moreover, as American investments in Central and Eastern Europe amounted to nearly 600 million dollars, or about 50 per cent more than the combined investments of Great Britain and France, the proceedings at Stresa were obviously of considerable importance to the United States, notwithstanding the absence of American representatives from the conference.

The deliberations proceeded more smoothly than did those at the conference which met in London for a similar purpose in April.[2] The French delegation abandoned the Tardieu plan which had been offered at London and which had been vigorously opposed by Germany and Italy. Almost from the beginning there was active cooperation between the French and the Germans, although the Italians again were disposed to hold aloof.

The recommendations adopted at the close of the conference, stressing the necessity of balancing the budgets and removing the restrictions on trade, were theoretically sound, but apparently they failed to provide a practicable method for overcoming the concrete obstacles in the way of their execution. The program called for the granting of special facilities for the export of grain from the

[1] The countries represented were Austria, Belgium, the United Kingdom, Bulgaria, Czechoslovakia, France, Germany, Greece, Hungary, Italy, Netherlands, Poland, Rumania, Switzerland and Yugoslavia.

[2] Cf. Chapter II.

Danubian countries in amounts equal to the average of the preceding three years. A fund of 75 million Swiss francs (14.5 million dollars) was to be raised for the "revalorization" of grain prices. The Danubian states in return for this assistance were to accord trade preferences to the states contributing to this fund, but it was stipulated that these advantages should not injure the interests of other states enjoying most-favored-nation treatment.[8]

The British delegates pointed out that their government did not impose quotas or heavy import duties on cereals and therefore could not grant preferences to the Danubian countries, and that consequently they were compelled to make reservations with regard to its participation in proposals involving guarantees or financial contributions. The outcome showed that countries like Germany, Italy, France and Czechoslovakia, which barred agricultural commodities by quotas and other methods, were seeking to rehabilitate the Danubian countries by artificial methods of price-pegging rather than by the simpler but politically more difficult method of giving freer markets to Danubian products. The delegates from Central and Eastern Europe had entered the conference in the hope that the more fortunate European nations would help them along the way to recovery, but they found their would-be benefactors unwilling to grapple with the realities of the problem.

(*d*) FOREIGN TRADE—QUANTITY INDEX

(1929 = 100)

	Great Britain		*United States*		*Germany*		*France*	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
1928....	99	95	99	88	88	104	99	87
1929....	100	100	100	100	100	100	100	100
1930....	82	98	88	84	97	90	89	107
1931....	86	100	65	76	88	76	83	106

The data in this table for different countries are not strictly comparable, but they give a rough indication of the trend of the volume of foreign trade in each of the four leading commercial nations. They are useful in supplementing the statistics of value, which show the effects of changing prices.

Sources: The figures in this table for the United States are adapted from those in *Trade Information Bulletin No. 808* of the United States Department of Commerce. The figures for the other countries were obtained

[8] *Report by the Stresa Conference for the Economic Restoration of Central and Eastern Europe.* League of Nations Publications, Official No. C. 666. M. 321. 1932. VII.

from the *World Economic Survey, 1931–1932*, 311–312, and recalculated with 1929 as the base year. An index of the *quantum* of world trade, appearing in the same work, p. 154, and also recalculated with 1929 as 100, shows world trade at 92 for 1930 and at 67 (preliminary figure) for 1931.

(*e*) TRADE OF GREAT BRITAIN WITH FOREIGN COUNTRIES AND WITH OTHER PARTS OF THE BRITISH EMPIRE

(In thousands of pounds)

IMPORTS

Year	Total	From Foreign Countries	Per Cent of Total	From Rest of Empire	Per Cent of Total
1925...	1,320,715	891,579	67.5	429,136	32.5
1926...	1,241,361	865,205	69.6	376,136	30.4
1927...	1,218,341	851,680	70.0	366,661	30.0
1928...	1,195,598	832,013	69.5	363,585	30.5
1929...	1,220,765	861,923	70.6	358,842	29.4
1930...	1,043,975	739,945	70.8	304,030	29.2
1931...	862,174	614,511	71.2	247,663	28.8

EXPORTS

Year	Total	To Foreign Countries	Per Cent of Total	To Rest of Empire	Per Cent of Total
1925...	773,381	438,267	56.6	335,114	43.4
1926...	653,047	336,196	51.5	316,851	48.5
1927...	709,081	382,431	54.0	326,650	46.0
1928...	723,579	395,911	54.7	327,668	45.3
1929...	729,349	404,898	55.5	324,451	44.5
1930...	570,755	322,410	56.5	248,345	43.5
1931...	389,163	218,557	56.2	170,606	43.8

Source: *Statistical Abstract for the British Empire.*

(*f*) BALANCES OF INTERNATIONAL PAYMENTS OF THE UNITED STATES, 1922–1931

(In millions of dollars; plus and minus signs indicate respectively inflow and outflow of funds)

Class of transactions (gross or net)	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931
COMMODITIES (ADJUSTED)										
Exports	4,121	4,368	4,834	5,177	5,044	5,091	5,333	5,447	4,095	2,623
Imports	3,419	4,162	3,952	4,544	4,766	4,508	4,468	4,799	3,294	2,254
Balance of trade (adjusted)	+702	+206	+882	+633	+278	+583	+865	+648	+801	[a]+369
MISCELLANEOUS INVISIBLE ITEMS										
Freight: Ocean, Great Lakes, and railway (net)	−79	−83	−64	−84	−95	−66	−32	−66	−96	−72
Expenditures by American tourists:										
Canada and Mexican frontier	−100	−131	−159	−185	−201	−231	−293	−334	−322	[b]−283
Overseas, including West Indies	−345	−313	−374	−400	−422	−465	−531	−534	−489	[b]−287
Expenditures by foreign tourists in United States	+87	+104	+107	+112	+148	+163	+163	+183	+157	+112
Ocean-borne passenger traffic[c]	+53	+60	+53	+63	+69	+89	+44	+47	+49	——
Interest on American private funds abroad (long and short term)	+555	+594	+635	+689	+740	+800	+896	+979	+916	+674
Interest on foreign funds in United States (long and short term)	−144	−180	−192	−229	−268	−281	−359	−414	−300	−126
War-debt receipts (principal)	+32	+92	+23	+26	+35	+46	+50	+62	+77	+21
War-debt receipts (interest)	+126	+167	+160	+160	+160	+160	+157	+145	+164	+92
Other governmental transactions (net)	−46	−66	−53	−61	−49	−29	−57	−92	−81	−98
Immigrant remittances (net)	−255	−229	−229	−235	−218	−206	−218	−223	−166	−163
Charitable and missionary contributions	−75	−70	−55	−50	−46	−49	−51	−49	−49	−39
Other items (net)[d]	+46	+57	+68	+74	+74	+74	+24	+25	+52	+57
Total, commodity and miscellaneous (net)	+557	+208	+802	+513	+205	+588	+658	+377	+713	[b]+257

NEW PRIVATE LOANS, INVESTMENTS, AND DEPOSITS										
Net increase in American long-term investments abroad (par value)	−857	−258	−869	−872	−808	−972	−1317	−791	−411	+154
Deduct bond discounts and underwriters' commissions on above	+101	+48	+125	+119	+121	+119	+122	+26	+66	+11
Net cash payments for above	−756	−210	−744	−753	−687	−853	−1195	−765	−345	+165
Net increase in long-term investments in United States for foreigners	+3	+240	+11	+193	+147	+158	+477	+446	+50	+53
Change in net debt of American banks to foreigners	+375	+3	+216	−61	+359	—	−226	+13	−485	−765
Net private capital movement (long and short term)	−378	+33	−517	−621	−181	−695	−944	−306	−780	−547
OTHER BALANCING ITEMS										
Gold shipped or earmarked (net)	−234	−295	−216	+102	−72	+154	+272	−120	−276	+176
Shipments of American paper money (net)	+40	+50	−20	−30	—	—	—	—	+20	−10
Add for net discrepancy due to inaccurate figures, omissions, etc.	+15	+4	−49	+36	+48	−47	+14	+49	+323	+124

[a] For purpose of comparison with estimates of previous years the miscellaneous short-term credits are carried in this table as "adjustments for differences in year-end lag."

[b] A net figure; it includes no payments to American passenger vessels.

[c] Largely a deduction from American tourist expenditures overseas.

[d] Includes insurance, motion-picture royalties, cable charges, Canadian electric power, press subscriptions, patents and copyrights, and advertising.

Source: U. S. Department of Commerce, Trade Information Bulletin No. 803.

APPENDIX IV

PASSAGES FROM REPUBLICAN AND DEMOCRATIC PLATFORMS DEALING WITH FOREIGN POLICY AND THE TARIFF

REPUBLICAN PLATFORM, ADOPTED JUNE 15, 1932

International Conference

We favor the participation by the United States in an international conference to consider matters relating to monetary questions, including the position of silver, exchange problems, and commodity prices, and possible coöperative action concerning them.

Tariff and the Marketing Act

The party pledges itself to make such revision of tariff schedules as economic changes require to maintain the parity of protection to agriculture with other industry.

The American farmer is entitled not only to tariff schedules on his products but to protection from substitutes therefor.

The Tariff

The Republican party has always been the stanch supporter of the American system of a protective tariff. It believes that the home market, built up under that policy, the greatest and richest market in the world, belongs first to American agriculture, industry and labor. No pretext can justify the surrender of that market to such competition as would destroy our farms, mines and factories and lower the standard of living which we have established for our workers.

Because many foreign countries have recently abandoned the gold standard, as a result of which the costs of many commodities produced in such countries have, at least for the time being, fallen materially in terms of American currency, adequate tariff protection is today particularly essential to the welfare of the American people.

The Tariff Commission should promptly investigate individual

commodities so affected by currency depreciation and report to the President any increase in duties found necessary to equalize domestic with foreign costs of production.

To fix the duties on some thousands of commodities, subject to highly complex conditions, is necessarily a difficult technical task. It is unavoidable that some of the rates established by legislation should, even at the time of their enactment, be too low or too high. Moreover, a subsequent change in costs or other conditions may render obsolete a rate that was before appropriate. The Republican party has, therefore, long supported the policy of a flexible tariff, giving power to the President, after investigation by an impartial commission and in accordance with prescribed principles, to modify the rates named by the Congress.

We commend the President's veto of the measure, sponsored by Democratic Congressmen, which would have transferred from the President to the Congress the authority to put into effect the findings of the Tariff Commission. Approval of the measure would have returned tariff making to politics and destroyed the progress made during ten years of effort to lift it out of log-rolling methods. We pledge the Republican party to a policy which will retain the gains made and enlarge the present scope of greater progress.

We favor the extension of the general Republican principle of tariff protection to our natural resource industries, including the products of our farms, forests, mines and oil wells, with compensatory duties on the manufactured and refined products thereof.

Foreign Affairs

Our relations with foreign nations have been carried on by President Hoover with consistency and firmness, but with mutual understanding and peace with all nations. The world has been overwhelmed with economic strain which has provoked extreme nationalism in every quarter, has overturned many governments, stirred the springs of suspicion and distrust and tried the spirit of international coöperation, but we have held to our own course steadily and successfully.

The party will continue to maintain its attitude of protecting our national interests and policies wherever threatened but at the same time promoting common understanding of the varying needs and aspirations of other nations and going forward in harmony with other peoples without alliances or foreign partnerships.

The facilitation of world intercourse, the freeing of commerce from unnecessary impediments, the settlement of international diffi-

culties by conciliation and the methods of law and the elimination of war as a resort of national policy have been and will be our party program.

Friendship and Commerce

We believe in and look forward to the steady enlargement of the principles of equality of treatment between nations great and small, the concession of sovereignty and self-administration to every nation which is capable of carrying on stable government and conducting sound orderly relationships with other peoples, and the cultivation of trade and intercourse on the basis of uniformity of opportunity of all nations.

In pursuance of these principles, which have steadily gained favor in the world, the Administration has asked no special favors in commerce, has protested discriminations whenever they arose, and has steadily cemented this procedure by reciprocal treaties guaranteeing equality for trade and residence.

The historic American plan known as the most-favored-nation principle has been our guiding program, and we believe that policy to be the only one consistent with a full development of international trade, the only one suitable for a country having as wide and diverse a commerce as America, and the one most appropriate for us in view of the great variety of our industrial, agricultural and mineral products and the traditions of our people.

Any other plan involves bargains and partnerships with foreign nations, and as a permanent policy is unsuited to America's position.

Latin America

The policy of the Administration has proved to our neighbors of Latin America that we have no imperialistic ambitions, but that we wish only to promote the welfare and common interest of the independent nations in the Western hemisphere.

We have aided Nicaragua in the solution of its troubles and our marines are remaining in that country, in greatly reduced numbers, at the request of the Nicaraguan government only to supervise the coming election. After that they will all be returned to the United States.

In Haiti, in accord with the recommendations of the Forbes commission, appointed by the President, the various services of supervision are being rapidly withdrawn, and only those will be retained which are mandatory under the treaties.

Throughout Latin America the policy of the government of the

United States has been and will, under Republican leadership, continue to be one of frank and friendly understanding.

World Court

The acceptance by America of membership in the World Court has been approved by three successive Republican Presidents and we commend this attitude of supporting in this form the settlement of international disputes by the rule of law. America should join its influence and gain a voice in this institution, which would offer us a safer, more judicial and expeditious instrument for the constantly recurring questions between us and other nations than is now available by arbitration.

Reduction of Armament

Conscious that the limitation of armament will contribute to security against war, and that the financial burdens of military preparation have been shamefully increased throughout the world, the Administration under President Hoover has made steady efforts and marked progress in the direction of proportional reduction of arms by agreement with other nations.

Upon his initiative a treaty between the chief naval powers at London in 1930, following the path marked by the Washington Conference of 1922, established a limitation of all types of fighting ships on a proportionate basis as between the three great naval powers. For the first time, a general limitation of a most costly branch of armament was successfully accomplished.

In the Geneva Disarmament Conference, now in progress, America is an active participant and a representative delegation of our citizens is laboring for progress in a cause to which this country has been an earnest contributor. This policy will be pursued.

Meanwhile, maintenance of our navy on the basis of parity with any nation is a fundamental policy to which the Republican party is committed. While, in the interest of necessary government retrenchment, humanity and relief of the taxpayer, we shall continue to exert our full influence upon the nations of the world in the cause of reduction of arms, we do not propose to reduce our navy defense below that of any other nation.

National Defense

Armaments are relative and, therefore, flexible and subject to change as necessity demands. We believe that in time of war every material resource in the nation should bear its proportionate share

of the burdens occasioned by the public need and that it is a duty of government to perfect plans in time of peace whereby this objective may be attained in war.

We support the essential principles of the national defense act as amended in 1920 and by the air corps act of 1926, and believe that the army of the United States has, through successive reductions accomplished in the last twelve years, reached an irreducible minimum consistent with the self-reliance, self-respect and security of this country.

Immigration

The restriction of immigration is a Republican policy. Our party formulated and enacted into law the quota system, which for the first time has made possible an adequate control of foreign immigration.

St. Lawrence Seaway

The Republican party stands committed to the development of the Great Lakes–St. Lawrence seaway. Under the direction of President Hoover negotiation of a treaty with Canada for this development is now at a favorable point. Recognizing the inestimable benefits which will accrue to the nation from placing the ports of the Great Lakes on an ocean base, the party reaffirms allegiance to this great project and pledges its best efforts to secure its early completion.

DEMOCRATIC PLATFORM, ADOPTED JUNE 30, 1932

We Advocate:

A competitive tariff for revenue, with a fact-finding Tariff Commission free from executive interference, reciprocal tariff agreements with other nations, and an international economic conference designed to restore international trade and facilitate exchange.

National Defense

A navy and an army adequate for national defense, based on a survey of all facts affecting the existing establishments, that the people in time of peace may not be burdened by an expenditure fast approaching $1,000,000,000 annually.

Foreign Policy

A firm foreign policy including: Peace with all the world and the settlement of international disputes by arbitration; no interference

in the internal affairs of other nations; the sanctity of treaties, and the maintenance of good faith and of good will in financial obligations; adherence to the World Court with the pending reservations; the Pact of Paris, abolishing war as an instrument of national policy, to be made effective by provisions for consultation and conference in case of threatened violation of treaties; international agreement for reduction of armaments; and coöperation with nations of the Western Hemisphere to maintain the spirit of the Monroe Doctrine. We oppose cancellation of the debts owing to the United States by foreign nations.

The Philippines

Independence for the Philippines; ultimate statehood for Puerto Rico; the employment of American citizens in the operation of the Panama Canal.

We Condemn:

The usurpation of power by the State Department in assuming to pass upon foreign securities offered by international bankers, as a result of which billions of dollars in questionable bonds have been sold to the public upon the implied approval of the Federal Government.

The Hawley-Smoot tariff law, the prohibitive rates of which have resulted in retaliatory action by more than forty countries, created international economic hostilities, destroyed international trade, driven our factories into foreign countries, robbed the American farmer of his foreign markets and increased his cost of production.

APPENDIX V

(*a*) INDICES OF PRODUCTION IN IMPORTANT COUNTRIES, 1929–1932

(Average for 1928 = 100)

	Years			1932—Months					
	1929	1930	1931	Jan.	Feb.	Mar.	Apr.	May	June	July
France	109	110	98	83	79	77	75	74	73	72
Germany	101	84	69	55	58	56	54	58	55	52
Great Britain	106	98	89	—	—	90	—	—	89	—
Poland	100	82	69	52	52	53	55	55	54	54
Sweden	101	97	86	89	88	92	80	82	74	69
Japan	111	106	101	96	100	108	104	107	104	107
Canada	112	95	80	73	75	71	68	77	68	63
United States	107	87	73	65	62	60	57	54	53	52

Source: League of Nations *Monthly Bulletin of Statistics.*

(*b*) COMMODITY PRICES IN IMPORTANT COUNTRIES

(Average for 1926 = 100)

Month 1932	United States	United Kingdom	France	Germany	Japan	Australia	Argentina
Jan.	67.3	71.5	76.4	74.4	66.1	77.2	58.7
Feb.	66.3	71.1	77.6	74.3	66.1	79.1	60.8
Mar.	66.0	70.7	77.2	74.3	64.6	78.6	63.1
Apr.	65.5	69.1	76.4	73.2	62.3	78.1	60.4
May	64.4	68.0	76.2	72.3	61.0	76.9	58.6
June	63.9	66.2	74.0	71.6	58.5	75.9	58.3
July	64.5	66.1	74.8	71.3	59.1	76.3	59.2
Aug.	65.2	67.2	72.3	71.0	62.1	77.3	61.1
Sept.	65.3	68.9	71.8	70.8	66.8	78.7	62.7
Oct.	64.4	68.2	71.6	70.2	67.7	76.7	59.0
Nov.	63.9	68.2	72.0	69.9	—	—	55.1

Source: *Commerce Reports,* published by U. S. Department of Commerce.

(*c*) UNEMPLOYMENT IN IMPORTANT COUNTRIES

(Number unemployed, 000 omitted)

	Years			1932—Months							
	1929	1930	1931	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
France.....	10	15	83	279	337	347	341	322	295	296	298
Germany...	1,478	3,267	4,577	6,042	6,128	6,034	5,739	5,583	5,476	5,392	5,224
Grt. Britain.	965	1,514	2,173	2,354	2,318	2,233	2,205	2,184	2,358	2,185	2,216
Poland.....	124	241	279	338	350	360	340	307	264	218	191
Sweden.....	32	47	66	93	94	99	80	76	77	76	79
Japan.....	291	368	425	486	485	474	482	482	482	—	—
Canada.....	15	35	78	83	79	77	78	76	73	70	66

(Employment Index 1926 = 100)

United States	97	83	71	65	66	65	62	60	58	55	56

Source: League of Nations *Monthly Bulletin of Statistics.*

(*d*) YIELD AND VALUE OF STAPLE CROPS, UNITED STATES, 1928–31

	Cotton		Wheat		Corn		Oats		Rye	
	Bales	Value	Bu.	Value	Bu.	Value	Bu.	Value	Bu.	Value
1928....	14.5	1,302	926	908	2,715	2,025	1,318	531	38	32
1929....	14.8	1,218	813	841	2,535	1,963	1,118	476	35	30
1930....	13.9	659	858	515	2,060	1,349	1,278	403	45	17
1931....	17.1	491	892	396	2,557	920	1,112	256	33	13

Source: *Statistical Abstract of the United States,* 1932.

(*e*) SIGNIFICANT BUSINESS INDICES, UNITED STATES, 1929–31

(Average for 1923–25 = 100)[1]

	Years			1932—Months								
	'29	'30	'31	Ja.	Fb.	Mr.	Ap.	My.	Je.	Jl.	Au.	Sp.	Oc.
Industrial production..	119	96	81	72	69	67	63	60	59	58	60	66	66[a]
Manufactures.....	119	96	80	71	68	65	61	58	58	57	59	66	65[a]
Minerals.....	115	99	84	77	78	84	79	67	63	64	65	70	74
Bldg. contracts awarded	117	92	63	31	27	26	27	26	27	27	30	30	29
Freight car loadings..	106	92	75	64	62	61	59	54	52	51	51	54	57
Factory employment..	101	88	74	68	68	66	64	62	60	58	59	60	61
Factory payrolls.....	108	87	66	52	54	52	49	46	43	40	40	42	44

[a] Preliminary.

[1] All monthly items, except factory payrolls, are adjusted for seasonal variation.

Source: *Federal Reserve Bulletin* (monthly publication of the Federal Reserve Board).

(*f*) TREND OF DIVIDEND PAYMENTS AND RAILWAY EARNINGS, UNITED STATES, 1930–32

Dividend Payments

(In millions of dollars)

	1930	1931	Change from 1930	1932	Change from 1930
Jan.	570	521	− 8.6%	403	−29.3%
Feb.	309	285	− 7.7	196	−36.5
Mar.	344	309	−10.2	215	−37.5
Apr.	325	311	− 4.3	227	−27.1
May	308	228	−26.0	225	−26.9
June	329	346	+ 5.2	245	−25.5
July	373	386	+ 3.4	255	−31.6
Aug.	197	241	+22.3	144	−26.9
Sept.	228	233	+ 2.3	125	−45.2
Oct.	320	282	−11.9	167	−47.9
Nov.	277	244	−12.0	131	−52.7

Source: *Journal of Commerce* (New York).

Railway Net Operating Income

(In millions of dollars)

	1930	1931	Change from 1930	1932	Change from 1930
Jan.	55,474	38,849	−30%	11,714	−79%
Feb.	59,452	27,264	−54	22,043	−63
Mar.	61,074	45,906	−25	32,289	−47
Apr.	62,272	39,074	−37	20,624	−67
May	69,174	41,264	−40	11,951	−83
June	68,883	50,163	−27	12,653	−82
July	82,750	56,535	−32	11,597	−86
Aug.	95,604	55,859	−42	28,368	−70
Sept.	104,078	55,319	−47	49,647	−52
Oct.	112,251	64,202	−43	63,839	−43

Source: *Survey of Current Business.*

APPENDIX VI

NOTE OF THE NINETEEN AMERICAN GOVERNMENTS TO BOLIVIA AND PARAGUAY, AUGUST 3, 1932, INVOKING THE STIMSON DOCTRINE

The representatives of all the American republics, meeting in Washington, the seat of the Neutral Commission, having been duly authorized by their respective governments, have the honor to make the following declaration to the governments of Bolivia and Paraguay:

"Respect for law is a tradition among the American nations, who are opposed to force and renounce it both for the solution of their controversies and as an instrument of national policy in their reciprocal relations. They have long been the proponents of the doctrine that the arrangement of all disputes and conflicts of whatever nature or origin that may arise between them can only be sought by peaceful means. The history of the American nations shows that all their boundary and territorial controversies have been arranged by such means. Therefore, the nations of America declare that the Chaco dispute is susceptible of a peaceful solution, and they earnestly request Bolivia and Paraguay to submit immediately the solution of this controversy to an arrangement by arbitration or by such other peaceful means as may be acceptable to both.

"As regards the responsibilities which may arise from the various encounters which have occurred from June 15 to date, they consider that the countries in conflict should present to the Neutral Commission all the documentation which they may consider pertinent, and which will be examined by it. They do not doubt that the country which this investigation shows to be the aggressor will desire to give satisfaction to the one attacked, thus eliminating all misunderstanding between them.

"They furthermore invite the governments of Bolivia and Paraguay to make a solemn declaration to the effect that they will stop the movements of troops in the disputed territory, which should clear up the atmosphere and make easy the road to the solution of

good understanding which America hopes for in the name of the permanent interests of all the countries of this hemisphere.

"The American nations further declare that they will not recognize any territorial arrangement of this controversy which has not been obtained by peaceful means nor the validity of territorial acquisitions which may be obtained through occupation or conquest by force of arms."

FRANCIS WHITE
For the Secretary of State of the United States

FABIO LOZANO T.
Minister of Colombia

JOSÉ RICHLING
Chargé d'Affaires of Uruguay

JOSÉ T. BARÓN
Chargé d'Affaires of Cuba

P. HERRERA DE HUERTA
Chargé d'Affaires of Mexico

M. DE FREYRE Y S.
Ambassador of Peru

R. DE LIMA E SILVA
Ambassador of Brazil

FELIPE A. ESPIL
Ambassador of Argentina

MIGUEL CRUCHAGA
Ambassador of Chile

ADRIAN RECINOS
Minister of Guatemala

PEDRO M. ARCAYA
Minister of Venezuela

DANTÈS BELLEGARDE
Minister of Haiti

ROBERTO DESPRADEL
Minister of the Dominican Republic

CÉLEO DÁVILA
Minister of Honduras

GONZALO ZALDUMBIDE
Minister of Ecuador

HORATIO F. ALFARO
Minister of Panama

LUIS M. DEBAYLE
Chargé d'Affaires of Nicaragua

MANUEL GONZÁLEZ-ZELEDON
Chargé d'Affaires of Costa Rica

ROBERTO D. MELENDEZ
Special Representative of the Republic of El Salvador
in the Board of Directors of the Pan American Union

Source: Department of State Press Release, August 3, 1932.

APPENDIX VII

(*a*) THE FINDINGS OF THE LYTTON COMMISSION[1]

The Commission's Recommendations

The final part of the Lytton report offers recommendations for a solution of the Manchurian difficulty designed both to safeguard legitimate Japanese interests and to protect the interests of China. The Commission does not favor the restoration of the *status quo ante*, since this would be "to leave out of account the realities of the situation." It equally opposes the maintenance and recognition of Manchukuo for the foregoing reasons. What the Commission does recommend is the establishment of an autonomous government for Manchuria, subject to China's sovereignty, to be established by "direct negotiation" between Japan and China.[2]

The Commission suggests that the League Council invite the governments of China and Japan to discuss a solution of their dispute on the lines indicated in the Lytton report. Should this invitation be accepted, the next step would be the summoning of an Advisory Conference, consisting of representatives of the Chinese and Japanese governments and of two delegations representing the local population—to be selected in a manner to be prescribed respectively by the Chinese and Japanese governments. With the agreement of the parties, the assistance of neutral observers might be secured. If the conference were unable to agree on any particular point, it would submit the point of difference to the Council, which would attempt to secure an agreement. The results of the discussions of the Advisory Conference should be embodied in four separate instruments:

1. A Declaration by the government of China constituting a special administration for the Three Eastern Provinces, in the terms recommended by the Advisory Conference;

[1] Reprinted, with permission, from "International Action on the Lytton Report," by Raymond Leslie Buell in *Foreign Policy Reports*, Nov. 9, 1932, Vol. VIII, No. 18.

[2] Lytton Report, 127.

2. A Sino-Japanese Treaty dealing with Japanese interests in Manchuria;
3. A Sino-Japanese Treaty of Conciliation and Arbitration, Non-Aggression and Mutual Assistance;
4. A Sino-Japanese Commercial Treaty.[3]

An Autonomous Manchuria

The Commission recommends that the Advisory Conference negotiate the establishment of an autonomous government of Manchuria, which, while remaining under the sovereignty of China, would embody many of the features of the "state" of Manchukuo. This régime would rest upon a declaration issued by the Chinese government and transmitted by it to the League of Nations and the signatories of the Nine-Power Treaty, which would have "the binding character of an international engagement."[4] It is suggested that in this declaration the Central Government of China reserve the control of general foreign relations, as well as that of the customs, post office, and the salt gabelle in Manchuria, the proceeds to be divided by agreement between the Central and provincial governments. It should also retain the power of appointment, at least in the first instance, of the Chief Executive of Manchuria.

All other powers should be vested in the autonomous government of Manchuria. Some system might be devised to secure an expression of local opinion regarding the administration and to safeguard the interests of the White Russians and other minorities. The autonomous government should be aided by a number of foreign advisers, "of whom a substantial proportion should be Japanese."[5] The chief executive of Manchuria should appoint two foreigners of different nationalities, from a panel submitted by the League Council, to exercise supervision over the constabulary and over fiscal administration. The chief executive should also appoint an adviser to the Central Bank of Manchuria from a panel submitted by the board of directors of the Bank for International Settlements. Provision is made for at least two judicial advisers, one of whom should be Japanese, and possibly for a railway adviser. The Commission emphasizes that the employment of foreign advisers who, during the period of the organization of the new régime, must exercise exceptionally wide powers, merely represents a form of international cooperation.

[3] Lytton Report, 133. It is recommended that the broad outlines of a settlement be agreed to by the parties before the conference begins.
[4] *Ibid.*, 134.
[5] *Ibid.*, 134.

They must be selected in a manner acceptable to the Chinese Government and one which is consistent with the sovereignty of China. When appointed, they must regard themselves as the servants of the Government employing them. . . . The goal to be kept in view throughout the period of transition is the creation of a civil service composed of Chinese, who will ultimately make the employment of foreigners unnecessary.[6]

Perhaps the most interesting feature of this proposed autonomous régime is the suggestion for the organization of a special gendarmerie with the collaboration of foreign instructors, "which would be the only armed force within the Three Eastern Provinces. . . . Its organisation, when completed, should be followed by the retirement from this territory of all other armed forces, including any special bodies of police or railway guards, whether Chinese or Japanese."[7]

Having established an autonomous régime in Manchuria, the two parties should define the interests of Japan in this area. The aims of the Sino-Japanese treaty concluded for this purpose should be "the free participation of Japan in the economic development of Manchuria, which would not carry with it a right to control the country either economically or politically; the continuance in the Province of Jehol of such rights as Japan now enjoys there; an extension to the whole of Manchuria of the right to settle and lease land, coupled with some modification of the principle of extraterritoriality; an agreement regarding the operation of the railways."[8]

The Commission realizes that China would not consent to the extension of the right of settlement if Japan continued to maintain the right of extraterritoriality. The Commission also recognizes that the application of extraterritoriality to the Koreans is bound to offer many occasions for friction. In the opinion of the Commission, "the most satisfactory solution of the problem is to make the administration of these Provinces so efficient that extraterritorial status will no longer be desired."[9] With this object the report recommends the appointment of at least two foreign advisers to the Manchurian courts. The opinion of these advisers might be made public in all cases involving foreigners which the courts adjudicated. Moreover, either the Chinese or Japanese government could bring complaints in the name of its nationals before an arbitral tribunal. Any extension of the rights of settlement to the Japanese should apply to the nationals of other powers under the most-favored-nation clause.

[6] Lytton Report, 135.
[7] *Ibid.*, 134.
[8] *Ibid.*, 135.
[9] *Ibid.*, 136.

To terminate railway rivalry, the Commission suggests, as one possibility, a working agreement between the Chinese and Japanese railway administrations, under a joint Sino-Japanese Railway Commission, with at least one foreign adviser. A second, more thorough, remedy would be the amalgamation of Chinese and Japanese railway interests—a plan which could be evolved along lines similar to those already followed by Japan in Manchuria during the last few months. Such an arrangement would make the South Manchuria Railway a purely commercial enterprise. A special municipal administration in the railway area should, however, be established in order to safeguard the vested interests of the South Manchuria Railway. By means of such a Sino-Japanese treaty many conflicts and misunderstandings arising over the respective rights of China and Japan would be settled. In the Commission's view, "China might then find no difficulty in recognizing all the definite grants made to Japan by such treaties and agreements as those of 1915, unless abrogated or modified by the new treaty."[10] This apparently implies that Japan should continue to maintain its leasehold at Dairen. Although the economic interests of Japan in Manchuria should thus be given a treaty basis, the Commission insists that the Open Door should be maintained.

The third treaty would provide pacific procedure to assist in the solution of disputes between China and Japan. For this purpose a board of conciliation and an arbitral tribunal should be established. The latter "would deal with any disputes between the Chinese and Japanese governments regarding the interpretation of the Declaration or of the new treaties, and with such other categories of disputes as might be specified in the treaty. . . ."[11] Finally, the treaty should contain provisions in regard to non-aggression and mutual assistance. For this purpose the parties should agree that

> Manchuria should gradually become a demilitarized area, [and that] after the organisation of the gendarmerie had been effected, any violation of the demilitarized territory by either of the parties or by a third party would constitute an act of aggression entitling the other party, or both parties in the case of a third-party attack, to take whatever measures might be deemed advisable to defend the demilitarized territory, without prejudice to the right of the Council of the League to take action under the Covenant.[12]

The Commission suggests that if the Soviet government wishes to

[10] Lytton Report, 137.
[11] *Ibid.*, 137–138.
[12] *Ibid.*, 137–138.

participate in these non-aggression provisions it should be free to do so.[13]

Under the Commission's proposal for a non-aggression agreement, Japan would be free to resist Soviet aggression in Manchuria; if the Soviets violated the territory, Japan could use force in legitimate defense and could also invoke the aid of the League. At the same time, such an agreement would assure China that Japan would not abuse the doctrine of legitimate defense, nor employ strategic arguments to justify the establishment of a veiled protectorate over Manchuria.

The fourth treaty would be a commercial agreement designed to encourage Japanese trade with China as a whole. "This treaty should also contain an undertaking by the Chinese government to take all measures within its power to forbid and repress organized boycott movements against Japanese trade, without prejudice to the individual rights of Chinese consumers."[14]

(*b*) TEXT OF THE TREATY BETWEEN JAPAN AND "MANCHUKUO," SEPTEMBER 15, 1932

Whereas Japan has recognized the fact that Manchukuo, in accordance with the free will of its inhabitants, has organized and established itself as an independent State; and

Whereas Manchukuo has declared its intention of abiding by all international engagements entered into by China in so far as they are applicable to Manchukuo;

Now the Governments of Japan and Manchukuo have, for the purpose of establishing a perpetual relationship of good neighborhood between Japan and Manchukuo, each respecting the territorial rights of the other, and also in order to secure the peace of the Far East, agreed as follows:

1. Manchukuo shall confirm and respect, in so far as no agreement to the contrary shall be made between Japan and Manchukuo in the future, all rights and interests possessed by Japan or her subjects within the territory of Manchukuo by virtue of Sino-Japanese treaties, agreements or other arrangements or of Sino-Japanese contracts, private as well as public;

2. Japan and Manchukuo, recognizing that any threat to the terri-

[13] Although stating that it had not been able to obtain direct information as to the views of the Soviet government, the Commission declared that "it is clear that any solution of the problem of Manchuria which ignored the important interests of the U.S.S.R. would risk a future breach of the peace and would not be permanent." (Lytton Report, 129–130.)

[14] *Ibid.*, 138.

tory or to the peace and order of either of the High Contracting Parties constitutes at the same time a threat to the safety and existence of the other, agree to coöperate in the maintenance of their national security; it being understood that such Japanese forces as may be necessary for this purpose shall be stationed in Manchukuo.

Source: League of Nations Publications, Official No. C.775.M.366.1932. VII.

APPENDIX VIII

(*a*) ARMS LIMITATION: THE FIRST AMERICAN PROPOSAL

Statement of Ambassador Gibson to the Conference for the Reduction and Limitation of Armaments at Geneva, February 9, 1932

1. The American government advocates consideration of the draft convention as containing the outlines for a convenient basis for discussion, while expressing its entire willingness to give full consideration to any supplementary proposals calculated to advance the end we all seek.

2. We suggest the possibility of prolonging the existing naval agreements concluded at Washington and London, and we advocate completing the latter as soon as possible by the adherence of France and Italy.

3. We advocate proportional reduction from the figures laid down in the Washington and London agreements on naval tonnage as soon as all parties to the Washington agreement have entered this framework.

4. We advocate, as we long have done, the total abolition of submarines.

5. We will join in formulating the most effective measures to protect civilian populations against aerial bombing.

6. We advocate the total abolition of lethal gases and bacteriological warfare.

7. We advocate, as I have already stated, the computation of the number of armed forces on the basis of the effectives necessary for the maintenance of internal order plus some suitable contingent for defense. The former are obviously impossible of reduction; the latter is a question of relativity.

8. We agree in advocating special restrictions for tanks and heavy mobile guns; in other words, for those arms of a peculiarly offensive character.

9. We are prepared to consider a limitation of expenditure on material as a complementary method to direct limitation, feeling

that it may prove useful to prevent a qualitative race, if and when the quantitative limitation has been effected.

Source: Department of State Press Release, February 9, 1932; League of Nations, *Conference Documents*, I, 139.

(*b*) ARMS LIMITATION: THE SECOND AMERICAN PROPOSAL

Resolution Submitted by Ambassador Gibson at the Conference for the Reduction and Limitation of Armaments, April 11, 1932

Whereas all states of the world are animated with the same legitimate concern for the defense of their territory and peoples;

Whereas many states now feel that they exist under the menace of aggression from their neighbors;

Whereas that fear of aggression is primarily caused and intensified by the existence of weapons which can break down national defenses such as fortifications—in other words, which give superiority to attack over defense;

Whereas the establishment of a constant superiority of defense over attack would promote in the peoples of all states a feeling of security;

The General Commission believes that the abolition of aggressive weapons would constitute a first and essential requisite, not only for the reduction of armaments, but for the establishment of security; and resolves:

1. (*a*) That the following weapons are of a peculiarly aggressive value against land defenses—tanks, heavy mobile guns and gases—and as such should be abolished; and

(*b*) To request the Land Commission to draw up and submit to the General Commission a plan for scrapping tanks and mobile guns exceeding 155 millimetres in caliber and for the abolition of the use of gases in war.

2. (*a*) That an undertaking by the states not to avail themselves of the aforementioned weapons in the event of war is equally essential; and

(*b*) To request the Political Commission to draw up and submit to the General Commission texts for these purposes.

Source: Department of State Press Release, April 11, 1932. *Journal* of the Conference for the Reduction and Limitation of Armaments, April 12, 1932, p. 342.

(*c*) ARMS LIMITATION: PRESIDENT HOOVER'S PROPOSAL

Instructions by President Hoover to the American Delegation to the Conference for the Limitation and Reduction of Armaments, Read by Ambassador Gibson before the General Commission, June 22, 1932

The delegations at the World Conference on Disarmament at Geneva are engaged in discussions as to methods by which a more comprehensive effort can be made toward disarmament.

The following is the substance of instructions which have been given by the President to the American Delegation for guidance in the discussions which are now occupying them.

The time has come when we should cut through the brush and adopt some broad and definite method of reducing the overwhelming burden of armament which now lies upon the toilers of the world. This would be the most important world step that could be taken to expedite economic recovery. We must make headway against the mutual fear and friction arising out of war armament which kill human confidence throughout the world. We can still remain practical in maintaining an adequate self-defense among all nations; we can add to the assurances of peace and yet save the people of the world from ten to fifteen billions of wasted dollars during the next ten years.

I propose that the following principles should be our guide:

First: The Kellogg-Briand Pact, to which we are all signatories, can only mean that the nations of the world have agreed that they will use their arms solely for defense.

Second: This reduction should be carried out not only by broad general cuts in armaments but by increasing the comparative power of defense through decreases in the power of the attack.

Third: The armaments of the world have grown up in general mutual relation to each other. And, speaking generally, such relativity should be preserved in making reductions.

Fourth: The reductions must be real and positive. They must effect economic relief.

Fifth: There are three problems to deal with—land forces, air forces and naval forces. They are all interconnected. No part of the proposals which I make can be disassociated one from the other.

Based on these principles, I propose that the arms of the world should be reduced by nearly one-third.

Land Forces

In order to reduce the offensive character of all land forces as distinguished from their defensive character, I propose the adoption

of the presentation already made at the Geneva conference for the abolition of all tanks, all chemical warfare and all large mobile guns. This would not prevent the establishment or increase of fixed fortifications of any character for the defense of frontiers and sea-coasts. It would give an increased relative strength to such defenses as compared with the attack.

I propose furthermore that there should be a reduction of one-third in strength of all land armies over and above the so-called police component.

The land armaments of many nations are considered to have two functions. One is the maintenance of internal order in connection with the regular police forces of the country. The strength required for this purpose has been called the "police component." The other function is defense against foreign attack. The additional strength required for this purpose has been called the "defense component." While it is not suggested that these different components should be separated, it is necessary to consider this contention as to functions in proposing a practical plan of reduction in land forces. Under the Treaty of Versailles and the other peace treaties, the armies of Germany, Austria, Hungary and Bulgaria were reduced to a size deemed appropriate for the maintenance of internal order, Germany being assigned 100,000 troops for a population of approximately 65,000,000 people. I propose that we should accept for all nations a basic police component of soldiers proportionate to the average which was thus allowed Germany and these other states. This formula, with necessary corrections for powers having colonial possessions, should be sufficient to provide for the maintenance of internal order by the nations of the world. Having analyzed these two components in this fashion, I propose as stated above that there should be a reduction of one-third in the strength of all land armies over and above the police component.

Air Forces

All bombing planes to be abolished. This will do away with the military possession of types of planes capable of attacks upon civil populations and should be coupled with the total prohibition of all bombardment from the air.

Naval Forces

I propose that the treaty number and tonnage of battleships shall be reduced by one-third; that the treaty tonnage of aircraft carriers, cruisers and destroyers shall be reduced by one-fourth; that the

treaty tonnage of submarines shall be reduced by one-third, and that no nation shall retain a submarine tonnage greater than 35,000.

The relative strength of naval arms in battleships and aircraft carriers, as between the five leading naval powers, was fixed by the Treaty of Washington. The relative strength in cruisers, destroyers and submarines was fixed, as between the United States, Great Britain and Japan, by the Treaty of London. For the purposes of this proposal, it is suggested that the French and Italian strength in cruisers and destroyers be calculated as though they had joined in the Treaty of London on a basis approximating the so-called accord of March 1, 1931. There are various technical considerations connected with these naval discussions which will be presented by the delegation.

General

The effect of this plan would be to bring an enormous saving in cost of new construction and replacement of naval vessels. It would also save large amounts in the operating expense in all nations of land, sea and air forces. It would greatly reduce offensive strength compared to defensive strength in all nations.

These proposals are simple and direct. They call upon all nations to contribute something. The contribution here proposed will be relative and mutual. I know of nothing that would give more hope for humanity to-day than the acceptance of such a program with such minor changes as might be necessary. It is folly for the world to go breaking its back over military expenditure, and the United States is willing to take its share of responsibility by making definite proposals that will relieve the world.

Sources: White House Press Release, June 22, 1932; League of Nations Publication, Official No. Conf. D. 126.

(*d*) RESOLUTION ADOPTED BY THE GENERAL COMMISSION OF THE CONFERENCE FOR THE REDUCTION AND LIMITATION OF ARMAMENTS AT GENEVA, JULY 23, 1932

I

The Conference for the Reduction and Limitation of Armaments,

Profoundly convinced that the time has come when all nations of the world must adopt substantial and comprehensive measures of disarmament in order to consolidate the peace of the world, to hasten the resumption of economic activity, and to lighten the financial burdens which now weigh upon the peoples of the world;

Desirous of avoiding a competition in the power of armaments which would be both ruinous to the peoples and threatening to their national defense;

Recalling its resolutions of April 19th, 20th and 22nd, 1932;

Firmly determined to achieve a first decisive step involving a substantial reduction of armaments, on the basis of Article 8 of the Covenant of the League of Nations, and as a natural consequence of the obligations resulting from the Briand-Kellogg Pact;

Welcoming heartily the initiative taken by the President of the United States of America in formulating concrete proposals for a substantial reduction of armaments by the prohibition of certain methods of warfare, by the abolition of certain material, and by reductions varying in magnitude and amounting for certain armaments to the proportion of one-third;

Bearing in mind also the draft convention of the Preparatory Commission, the statements and proposals made to the conference by a number of delegations, and the reports and resolutions of the various commissions of the conference:

Decides forthwith and unanimously, guided by the general principles underlying President Hoover's declaration:

1. That a substantial reduction of world armaments shall be effected to be applied by a general convention alike to land, naval and air armaments;

2. That a primary objective shall be to reduce the means of attack.

II. *Conclusions of the First Phase of the Conference*

The conference, noting that agreement has now been reached on a certain number of important points, decides, without prejudice to more far-reaching agreements hereafter, to record forthwith the following concrete measures of disarmament, which should form part of the general convention to be concluded. The conference also decides to establish certain principles as the basis for further reductions of armaments, and to determine the procedure necessary for the active prosecution of its work.

1. *Air Forces*

The conference, deeply impressed with the danger overhanging civilization from bombardment from the air in the event of future conflict, and determined to take all practicable measures to provide against this danger, records at this stage of its work the following conclusions:

1. Air attack against the civilian population shall be absolutely prohibited;

2. The High Contracting Parties shall agree as between themselves that all bombardment from the air shall be abolished, subject to agreement with regard to measures to be adopted for the purpose of rendering effective the observance of this rule. These measures should include the following:

(a) There shall be effected a limitation by number and a restriction by characteristics of military aircraft;

(b) Civil aircraft shall be submitted to regulation and full publicity. Further, civil aircraft not conforming to the specified limitations shall be subjected to an international régime (except for certain regions where such a régime is not suitable) such as to prevent effectively the misuse of such civil aircraft.

2. *Land Armaments*

(a) Land Artillery.

1. All heavy land artillery of calibers between any maximum limit as determined in the succeeding paragraph and a lower limit to be defined shall be limited in number.

2. The limitation of caliber of land artillery shall be fixed by the convention.

Subject to an effective method being established to prevent the rapid transformation of guns on fixed mountings into mobile guns, different maxima for the caliber of land guns may be fixed as follows:

(*a*) A maximum limit for the caliber of coastal guns, which shall not be less than the maximum caliber of naval guns;

(*b*) A maximum limit for the caliber of guns in permanent frontier or fortress defensive systems;

(*c*) A maximum limit for the caliber of mobile land guns (other than guns employed for coastal defense.)

(b) Tanks.

The maximum unit tonnage of tanks shall be limited.

3. *Chemical, Bacteriological and Incendiary Warfare*

Chemical, bacteriological and incendiary warfare shall be prohibited under the conditions unanimously recommended by the Special Committee.

4. *Supervision*

There shall be set up a Permanent Disarmament Commission with the constitution, rights and duties generally as outlined in Part VI of the draft convention submitted by the Preparatory Commission for the Disarmament Conference, with such extension of its powers as may be deemed by the conference necessary to enable the convention to be effectively applied.

III. *Preparation of the Second Phase of the Conference*

The conference requests the Bureau to continue its work during the period of adjournment of the General Commission, with a view to framing, with the collaboration (if necessary) of a drafting committee, draft texts concerning the questions on which agreement has already been reached. Such texts will be communicated to all delegations as soon as they are drafted, and will then be submitted to the commission.

Points which call for detailed examination will be examined by the Bureau or by the appropriate committees, with the assistance of the governments concerned, in order that definite conclusions may be reached as soon as the General Commission meets again.

The questions which will form the subject of such examination are the following:

1. *Effectives*

A strict limitation and a real reduction of effectives shall be brought about.

For this purpose, the conference invites the Bureau to examine, with the collaboration of such delegations as it considers necessary, the proposal of President Hoover relating to effectives. These studies should take into consideration, in the case of each country, the actual conditions of defense and the number and character of its forces.

2. *Limitation of National Defense Expenditure*

(a) The conference shall decide on the resumption of its labors, taking into account the special conditions of each state, what system of limitation and publicity of expenditure on national defence will provide the peoples with the best guarantee of an alleviation of their financial burdens, and will prevent the measures of qualitative and quantitative disarmament to be inserted in the convention from being neutralized by increases or improvements in authorized armaments.

(b) With a view to the decisions to be taken under this head, the conference requests the Committee on National Defense Expenditure and its Technical Committee to continue and complete the work entrusted to its organs and to submit their report as soon as possible. The conference requests its Bureau to draw up, on the basis of this report, a plan accomplishing the purpose aimed at and taking into consideration the special conditions of the various states.

3. *Trade in and Manufacture of Arms*

The Bureau will set up a special committee to submit proposals to the conference, immediately on the resumption of its work, in regard to the regulations to be applied to the trade in and private and state manufacture of arms and implements of war.

4. *Naval Armaments*

As regards the proposals made by President Hoover and other related proposals concerning naval armaments, the conference invites the powers parties to the Naval Treaties of Washington and London, which have already produced important results, to confer together and to report to the General Commission, if possible before the resumption of its work, as to the further measures of naval reduction which might be feasible as a part of the general program of disarmament.

The conference further invites the naval powers other than the powers parties to the above treaties to make arrangements for determining the degree of naval limitation they are prepared to accept in view of the Washington and London Treaties and the general program of disarmament envisaged in the present resolution.

The Bureau will be kept informed of the progress of these negotiations, which it will be its duty to coördinate within the framework of the general convention in preparation for the comprehensive decisions of the General Commission.

5. *Violations*

Rules of international law shall be formulated in connection with the provisions relating to the prohibition of the use of chemical, bacteriological and incendiary weapons and bombing from the air, and shall be supplemented by special measures dealing with infringement of these provisions.

6. *Future Work of the Conference: Procedure*

Pending the resumption of the meetings of the General Commission, the Bureau will keep the delegations informed of the progress of the work.

It will be for the Bureau to fix the date of the next meeting of the General Commission with one month's notice. The meeting of the General Commission shall take place not later than four months after the resumption of the work of the Bureau, which will meet during the week beginning September 19th, 1932.

IV. *General Provisions*

The present resolution in no way prejudges the attitude of the conference towards any more comprehensive measures of disarmament or towards the political proposals submitted by various delegations.

V. *Armaments Truce*

In order to ensure that, pending the resumption of the meetings of the General Commission and during the second phase of its work, no steps shall be initiated by any power which might prejudice the preparation of the General Disarmament Convention, the conference decides to recommend to the governments to renew for a period of four months from November 1st, 1932, the truce provided for by the resolution of the Assembly of the League of Nations of September 29th, 1931.

Source: League of Nations Publication, Official No. Conf. D. 136.

(*e*) TEXT OF THE FIVE-POWER DECLARATION OF DECEMBER 11, 1932, CONCERNING LIMITATION OF ARMAMENTS

1. The Governments of the United Kingdom, France and Italy have declared that one of the principles that should guide the Conference on Disarmament should be the grant to Germany, and to the other powers disarmed by treaty of equality of rights in a system which would provide security for all nations, and that this principle should find itself embodied in the convention containing the conclusions of the Disarmament Conference.

This declaration implies that the respective limitations of the armaments of all states should be included in the proposed disarmament convention. It is clearly understood that the methods of application of such equality of rights will be discussed by the conference.

2. On the basis of this declaration Germany has signified its willingness to resume its place at the Disarmament Conference.

3. The Governments of the United Kingdom, France, Germany and Italy are ready to join in a solemn reaffirmation to be made by

all European states that they will not in any circumstances attempt to resolve any present or future differences between the signatories by resort to force. This shall be done without prejudice to fuller discussions on the question of security.

4. The five Governments of the United States, the United Kingdom, France, Italy and Germany declare that they are resolved to cooperate in the conference with the other states there represented, seeking without delay to work out a convention which shall effect a substantial reduction and a limitation of armaments with provision for future revision with a view to further reduction.

Source: Department of State Press Release, December 12, 1932.

APPENDIX IX

CHRONOLOGY OF IMPORTANT EVENTS AFFECTING AMERICAN FOREIGN RELATIONS, 1932

ARMS LIMITATION

December, 1931:

30. Mr. Hugh Gibson, Mr. Norman H. Davis, Senator Claude A. Swanson, and Dr. Mary E. Woolley appointed by President Hoover as United States delegates to the Conference for the Reduction and Limitation of Armaments; Mr. Hugh R. Wilson appointed as alternate delegate.

February, 1932:

2. The conference opens in Geneva.

5. Premier Tardieu proposes a world police force under League command.

9. Mr. Gibson, on behalf of the United States, presents a nine-point program.

5–13. Other proposals for the reduction of armaments introduced by the delegates of various countries.

25. British plan for carrying on the discussions within the framework of the draft convention is approved. Russian plan for complete disarmament is rejected.

March, 1932:

16. Conference adjourns until April 11.

April, 1932:

11. Mr. Gibson presents new plea for the ban of offensive arms.

12. Premier Tardieu again offers French plan for armed forces under League control.

22. Compromise plan on qualitative disarmament, presented by Sir John Simon, is adopted.

27. British government announces that if no agreement on naval reduction is reached, it may be compelled to resort to the escape clause of the London Naval Treaty.

May, 1932:

3. France advocates the revision of the London Naval Treaty. Senator Swanson, United States delegate, opposes this move.

June, 1932:

21. Premier Herriot, after conference with American delegates, rejects the American plan for limitation of military effectives.

22. President Hoover proposes arms cut of one-third; this plan is explained in detail by the American delegate on the following day. Italy accepts the plan; other nations request changes.

23. Security pact insisted upon by France is opposed by President Hoover.

July, 1932:

7. British plan, similar to American proposal for the reduction of all armaments by one-third, is introduced in the House of Commons, but proposal excludes naval armament.

20. Resolution supported by the great powers, and advocating the reduction of air, sea, and land forces, is submitted to the conference.

22. Count Nadolny, German delegate, presents Germany's request for arms equality and declares that Germany will reject the resolution and not return in 1933 if her demands are not accepted.

23. Forty-one delegates vote for the resolution, eight abstain from voting, and two (Germany and Russia) vote against it. Conference then adjourns for six months after extending arms truce to January 29, 1933.

26. General von Schleicher, German Minister of Defense, threatens to reorganize the army in spite of treaty restrictions unless other nations disarm to the German level.

27. Premier Herriot protests to German Ambassador against von Schleicher's statement.

August, 1932:

29. In note to French government, Germany requests revision of arms limitation clause in Treaty of Versailles and asks for arms equality with other nations.

September, 1932:

1. French government announces that it intends to act in accord with Great Britain in drafting reply to Germany's demand for arms equality.

7. Premier Herriot rejects direct Franco-German negotiations and suggests discussions before the Disarmament Conference.

10. Prime Minister MacDonald suggests four-power conference to discuss Germany's demand for arms equality. France again objects to direct discussions.

15. German government notifies the President of the Disarmament Conference that Germany will not participate further unless she is granted arms equality.

18. British government joins the French in opposing Germany's plea to rearm.

20. President Hoover urges Germany to remain in the conference, but considers her plea for arms equality a purely European question.

23. German government declines to reverse its decision, saying that Hoover plan for arms reduction is not a sufficient guarantee of German security.

October, 1932:

1. Hoover plan for arms reduction is adopted as basis for discussions by Committee on Effectives.

4. Great Britain proposes conference of leading powers, including United

States observer, in London to consider German demands. Germany refuses to participate unless her demand for arms equality is basis of conference.

14. Germany objects to Geneva as meeting place for conference proposed by Great Britain.

21. Secretary Stimson instructs Mr. Hugh R. Wilson to accept the proposal for a four months' extension of the arms truce expiring on November 1, 1932.

November, 1932:

7. Disarmament Conference Bureau agrees upon the establishment of a permanent commission, consisting of one representative from each of the signatories to the disarmament treaty, to supervise the execution of the agreement.

14. New French plan for arms reduction is published.

14. France and Italy resume naval talks broken off in April, 1931.

17. Sir John Simon presents Great Britain's new plan for arms reduction.

25. After pending difficulties have been smoothed out, Germany declares willingness to attend five-power conference at Geneva to discuss her demand for arms equality.

29. Premier Herriot agrees to attend five-power conference at Geneva to discuss arms reduction.

December, 1932:

2. Delegates of the five powers—France, Germany, Great Britain, Italy, and the United States—begin conference at Geneva.

11. Five-power declaration signed.[1]

DOMESTIC RECONSTRUCTION

ANTI-HOARDING CAMPAIGN

February, 1932:

3. President Hoover makes appeal to country to cease the hoarding of currency and to join in a campaign against the depression.

5. Colonel Frank Knox appointed to conduct the anti-hoarding campaign.

19. The Treasury announces the issuance of special one-year maturity certificates, known as "baby bonds," to combat hoarding.

March, 1932:

6. President Hoover, Secretary Mills, and General Dawes open campaign for the sale of "baby bonds" by addresses over the radio.

ECONOMY BILL

February, 1932:

19. House of Representatives appoints special Economy Committee to find ways for curtailing expenditures.

April, 1932:

25. Economy bill introduced in House of Representatives from Economy Committee.

[1] For text, see Appendix VIII (*e*).

May, 1932:

3. Economy bill as amended by the House provides savings of only 30 millions instead of expected 263 millions.

June, 1932:

8. Senate passes an economy bill with savings estimated at from 134 to 156 millions.

30. Compromise economy bill signed by the President.

GLASS-STEAGALL BILL

February, 1932:

11. Glass-Steagall banking bill introduced in both Houses.

13. Bill is reported from Senate and House committees with a few amendments.

15. Bill passes House with only 15 votes in opposition.

19. Bill passes Senate without a roll call.

26. Bill as amended in conference is unanimously approved by both Houses.

27. Bill is signed by the President.

GOLDSBOROUGH BILL

April, 1932:

21. Goldsborough bill to restore and maintain the purchasing power of the dollar is introduced in the House of Representatives.

May, 1932:

2. Bill is brought up in the House under suspension of the rules and passes by a vote of 289 to 60.

June, 1932:

1. Senator Glass offers new measure as a substitute for Goldsborough bill.

BONUS BILL

January, 1932:

14. Bill is introduced in the House of Representatives and referred to the Ways and Means Committee.

May, 1932:

7. Bill is returned, with an unfavorable report by a vote of 15 to 10, from the Ways and Means Committee.

June, 1932:

15. Bill is passed in the House by a vote of 211 to 176.

16. Senate Finance Committee makes adverse report on the bill by a vote of 14 to 2.

17. Bill is defeated in the Senate by a vote of 62 to 18.

RECONSTRUCTION FINANCE CORPORATION

January, 1932:

4. Message from the President proposing the establishment of the Reconstruction Finance Corporation.

9. Bill to establish the Reconstruction Finance Corporation introduced in the House.

15. Bill passed in the House with amendments.

18. Measure passed in the Senate with amendments.

22. Bill is signed by the President, who appoints General Charles G. Dawes, former Ambassador to Great Britain, as President of the Reconstruction Finance Corporation and Mr. Eugene Meyer, Governor of the Federal Reserve Board, as Chairman.

TAX BILL

March, 1932:

7. Bill is introduced in the House of Representatives; includes a sales tax of 2¼ per cent on the sales value of all manufactured goods, and an excise tax on oil.

13. Revolt among a group of fifty insurgent Democratic members in the House over sales tax section of the tax bill.

18. Coalition of insurgent Democrats and Republicans routs regular party leaders and by a vote of 153 to 87 raises income tax in tax bill to practically war-time levels.

24. Sales tax is rejected in the House by a vote of 223 to 153.

26. A new coalition in the House votes duty of 10 cents a hundred pounds on coal and coke in the tax bill.

29. Speaker Garner appeals to the House to put aside partisanship and to balance the budget.

April, 1932:

1. House of Representatives passes the tax bill, eliminating the sales tax, by a vote of 327 to 64.

May, 1932:

9. Revised tax bill is laid before the Senate.

23. Senate coalition votes duties on lumber and copper.

31. President Hoover appears before the Senate and urges speed in passing the tax bill to balance the budget.

June, 1932:

1. Tax bill is passed in the Senate by a vote of 72 to 11.

GARNER AND WAGNER RELIEF BILLS

May, 1932:

12. President Hoover asks Democratic and Republican leaders in the Senate to consider a three-point program for the relief of unemployment.

25. Bill is introduced by Senator Wagner embodying some of the proposals made by the President for relief of unemployment.

26–28. Caucus of Democratic members of the House approves Garner relief bill, which is introduced in the House on the 27th and reintroduced in a revised form on the 28th.

June, 1932:

7. House passes Garner bill by a vote of 216 to 182.

23. Wagner bill is passed by the Senate.

July, 1932:

7. Relief bill representing compromise of Garner and Wagner bills passes the House.

9. Relief bill passes the Senate.

11. President Hoover vetoes the relief bill.

16. Congress passes a compromise relief bill which is approved by the President.

EUROPEAN POLITICS

AUSTRIA

January, 1932:

27–29. Cabinet resigns because of friction over Disarmament Conference; Chancellor Buresch forms a new Cabinet.

April, 1932:

24. Elections result in gains by the National Socialists (Nazis) in Vienna and the provinces.

July, 1932:

28. Government announces that it will adhere to consultative pact initiated by France and Great Britain at Lausanne on July 13.

FRANCE

January, 1932:

12. Laval Cabinet resigns.

13. At President Doumer's request, M. Laval forms new Cabinet, accepting again for himself the office of Premier.

February, 1932:

16. Laval Cabinet forced out after defeat in the Senate on electoral reform bill.

20. M. Tardieu forms new Cabinet after M. Painlevé fails to do so; assumes offices of Premier and Minister of Foreign Affairs.

March, 1932:

7. Aristide Briand, former Foreign Minister, dies.

May, 1932:

1. First balloting for members of Chamber of Deputies shows a swing to the Left.

6. President Doumer assassinated.

8. Second ballot for Chamber. Tardieu Government defeated.

10. Albert F. Lebrun elected President. M. Tardieu and Cabinet tender resignations, but agree to remain at their posts until the new Chamber meets.

June, 1932:

3. M. Herriot announces new Cabinet.

7. M. Herriot outlines program on war debts and disarmament and wins large majority on vote of confidence.

July, 1932:

13. An Accord of Confidence, establishing a new *entente* with Great Britain, is signed; other nations are invited to join.

October, 1932:

16. Senatorial elections show no important changes; Premier Herriot is assured a majority.

GERMANY

March, 1932:

13. President von Hindenburg fails by narrow margin to obtain majority in national election. Adolph Hitler his nearest rival.

April, 1932:

10. Second German election; President von Hindenburg reëlected by a plurality of nearly 6 million votes in a total poll of over 36 millions.

24. Elections in Prussia, Bavaria, Hamburg, Anhalt, and Wuertemberg for members of Diets. Hitler's supporters win a plurality of seats in all states except Bavaria; in Prussian Diet, win 162 seats out of total of 422.

May, 1932:

19. Prussian Government resigns.

30. President von Hindenburg forces resignation of Bruening Cabinet.

June, 1932:

1. Colonel Franz von Papen appointed Chancellor and forms new Cabinet.

4. President von Hindenburg dissolves Reichstag. New election set for July 31.

15. President von Hindenburg signs decree lifting ban on storm troops.

July, 1932:

20. President von Hindenburg decrees state of emergency in Berlin and Brandenburg and appoints federal commissioner for Prussia.

21. Prussian Ministers forced to resign.

26. President von Hindenburg declares state of emergency in Berlin and Brandenburg at an end.

31. Election gives Nazis 37 per cent of Reichstag seats, against 21 per cent for Social Democrats, 15 per cent for Centrists, 14 per cent for Communists, and 13 per cent for minor parties.

August, 1932:

30. Reichstag assembles, and after electing its officers adjourns until September 12. President von Hindenburg grants power to the Chancellor to dissolve the Reichstag.

September, 1932:

12. Chancellor von Papen presents decree of dissolution as Reichstag meets, and opposition parties disregard it. President von Hindenburg supports the Chancellor, and Reichstag is not allowed to meet again. Election of a new Reichstag set for November 6.

November, 1932:

6. Reichstag election shows cut in Hitler's vote and gain for Communists.

17. Chancellor von Papen and his Cabinet resign.

21–23. Hitler declines the Chancellorship on President von Hindenburg's terms and submits counter-proposals.

December, 1932:

2. General von Schleicher appointed Chancellor.

3. With two exceptions, General von Schleicher appoints all members of von Papen Ministry to his own Cabinet.

GREAT BRITAIN

July, 1932:

13. Signs Accord of Confidence with France, establishing new *entente*; other nations invited to join in the pact.

ITALY

April, 1932:

9. Fascist Grand Council session closes after adoption of three resolutions covering the international economic situation and disarmament.

July, 1932:

20. Foreign Minister Grandi resigns as Premier Mussolini reorganizes his Cabinet.

21. Premier Mussolini assumes offices of Foreign and Corporation Ministries.

EUROPEAN RECONSTRUCTION

December, 1931:

17. Franco-German economic conference in Berlin decides to establish cartels in various industries.

March, 1932:

3. German government offers preferential treatment to Austria provided most-favored-nation clause is suspended.

5. French Ambassador submits outline of French plan to German government covering relief measures for Danubian countries.

12. Premier Tardieu and Sir John Simon announce accord on Danubian project.

16. German government rejects Tardieu plan for Danubian federation and offers new suggestions.

26. Prime Minister MacDonald invites Premier Tardieu and Foreign Ministers of Italy and Germany to confer on Danubian questions.

April, 1932:

4. France and Great Britain issue statement on three-point agreement regarding Danubian union and financial aid to Danubian countries.

6–8. Four-power conference meets in London, but adjourns without reaching any agreement for Danubian relief.

16–20. Conference summoned by the International Chamber of Commerce,

to discuss relief measures for Danubian states, is held at Innsbruck, Austria, but fails to formulate a definite program.

May, 1932:

13–15. Conference between Little Entente nations to discuss economic cooperation with Central European states meets in Belgrade, and declares itself in favor of the French plan for a five-power Danubian union.

30. League's mixed committee, to study relief measures for Danubian countries, meets in Paris.

June, 1932:

11. Germany and Italy announce opposition to the formation of a Danubian bloc.

September, 1932:

5. Delegates of fifteen countries meet at Stresa to discuss financial and economic reconstruction of the Danubian states.

19. Economic rehabilitation plan adopted at Stresa conference provides for grain preferences, bilateral treaties, and a general contribution fund.

FAR EASTERN AFFAIRS

December, 1931:

10. League Council, meeting in Paris, adopts peace resolution, also approved by the United States, and decides to appoint a Commission of Inquiry to investigate conditions in Manchuria. Japanese and Chinese accept the resolution with reservations.

23. Japanese attack Chinchow in drive into Southern Manchuria.

18–24. United States Ambassador Forbes makes repeated representations against movement on Chinchow. Premier Inukai replies that purpose is to suppress bandits.

27. Ambassador Forbes requests that Japan maintain the "open door" policy and charges discrimination against foreigners.

January, 1932:

3. Chinchow occupied by Japanese; Chinese troops withdraw behind Great Wall without fighting.

5. League Council submits names of members of Inquiry Commission to Japanese and Chinese governments for approval.

7. Secretary Stimson sends identic notes to Chinese and Japanese governments declaring that the United States will not recognize any situation, treaty, or agreement effected by means contrary to the covenants of the Pact of Paris. (This becomes known as the Stimson doctrine.)

8. Japanese government, after receipt of Stimson note, denies that it intends to violate treaties.

11. Chinese and Japanese governments accept personnel of League Inquiry Commission.

13. Chinese government's reply to the United States' note regarding Manchuria stresses China's willingness to coöperate with the United States in upholding treaty rights.

18. Chinese mob assaults Japanese priests in native part of Shanghai; one priest is killed.

20. Serious clashes in Shanghai between Japanese residents and Chinese agitators in retaliation for Chinese assault on Japanese priests.

21. Japanese government demands immediate cessation of Chinese boycott against Japanese goods.

21. Earl of Lytton appointed Chairman of Manchurian Inquiry Commission (referred to hereafter as the Lytton Commission).

22. Rear Admiral Shiozawa and Japanese Consul General Murai in Shanghai demand immediate suspension of anti-Japanese organizations in International Settlement and native city of Shanghai on threat of naval demonstrations. Foreign consuls protest against threats.

26. Martial law declared in Shanghai. League Council appeals to both China and Japan to avoid clash.

27. Mayor of Shanghai receives 22-hour ultimatum from Japanese Consul General requesting acceptance of all Japanese demands.

28. Japanese attack Chapei (suburb of Shanghai).

28. League Council decides to invoke Article X of the Covenant, reminding China and Japan of their obligations.

28. United States Navy Department orders four destroyers to proceed from Manila to Shanghai.

29. Attack on Shanghai is brought to attention of League Council by the Chinese delegate, Dr. W. W. Yen, who invokes Articles X and XV of the League Covenant. Council appoints committee of consuls at Shanghai to report on the situation and asks the United States to choose a member. Japan threatens to withdraw from League.

February, 1932:

1. Secretary Stimson advises League that United States representative will coöperate with Shanghai committee, but not as a member of the committee.

1. British and United States Ambassadors protest against use of International Settlement as basis of operations.

2. United States, Great Britain, France, and Italy submit five-point peace proposal to both China and Japan; this move is also supported by Germany.

3. China accepts the five-point peace proposal, but Japan rejects two of the points. Bombardment of Woosung forts begun by Japanese warships. British cruiser *Berwick* and United States cruiser *Houston* arrive at Shanghai.

4. Seven American destroyers and a transport with an infantry regiment arrive at Shanghai to protect American interests.

5. Japanese renew offensive in Manchuria on a large scale and occupy Harbin.

11. Cotton mill in International Settlement quartering American troops is bombed by Japanese airplanes. American consul protests to Japanese consul.

12. China requests that Shanghai dispute be referred to a special session of the Assembly to consider the dispute under Article XV of the Covenant.

16. League drafts note to Japan reminding her of her obligations under Article X of the Covenant.

17. General Uyeda issues ultimatum to Chinese commander to withdraw about 12½ miles from International Settlement within twenty-four hours.

18. Chinese government rejects Japanese ultimatum.

18. Northeastern Administrative Committee declares "Ankuo" (Manchuria) an independent state.

18. League committee of jurists reports unfavorably on Japanese objection to convocation of special Assembly.

23. Japan replies to League note of February 16, asserting that owing to chaotic conditions in China it cannot be considered at present as an organized state.

24. United States policy in the Far East is outlined in a letter from Secretary Stimson to Senator Borah.

28. New negotiations for an armistice between the disputants opened at Shanghai aboard the British flagship *Kent*.

29. Council proposes truce and round-table conference at Shanghai (with full coöperation of the United States). Chinese and Japanese delegates accept the plan, subject to approval by their governments.

March, 1932:

1. Chinese routed by Japanese in fiercest battle near Shanghai since the outbreak of hostilities.

1. New Manchurian state formally proclaims its independence and changes name from "Ankuo" to "Manchukuo."

2. British government expresses opinion (in opposition to the United States) that it will not oppose the formation of the new independent Manchurian state.

2. Chinese retreat from all strategic points around Shanghai. Woosung forts occupied by Japanese.

3. Japan suspends hostilities in Shanghai area as military objective has been accomplished.

3. League Assembly meets in special session to consider the Sino-Japanese dispute.

4. League Assembly votes unanimously a three-point peace proposal calling for the cessation of hostilities, the withdrawal of Japanese troops, and peace negotiations.

9. Henry Pu-yi, former boy emperor, inaugurated as Regent of "Manchukuo"; proclaims independence and the severance of all ties with China.

9. Japan declares willingness to negotiate for peace under terms of League Assembly resolution of March 4. Terms are submitted to Chinese Nationalist government by Sir Miles Lampson.

10. Chinese government declares willingness to start peace negotiations on basis of League resolution, but demands that Japanese troops withdraw first.

11. League Assembly adopts the Stimson doctrine declaring that it will not recognize any situation, treaty, or arrangement brought about by means contrary to the covenants of the Pact of Paris.

12. Secretary Stimson announces approval by the United States of the position taken by the League Assembly on the Far Eastern dispute.

12. "Manchukuo" seeks recognition by other governments; request is ignored by all the powers except Japan.

14. Provisional armistice agreed upon at Shanghai between China and Japan in the presence of diplomatic representatives of Great Britain, France, Italy, and the United States.

19. "Manchukuo" government notifies Chinese Nationalist government of complete severance of all relations; also notifies League that China no longer represents Manchuria.

21. Final armistice terms call for the gradual withdrawal of Japanese troops while Chinese remain in present positions; execution of terms to be supervised by a neutral commission.

April, 1932:

14. Japan declares that it will not participate in meeting of League Committee of Nineteen to consider Shanghai status.

16. League Committee of Nineteen suggests that China accept the ruling of neutrals as to time of withdrawal of Japanese troops from Shanghai area.

20. Chinese government accepts League Committee's resolution. Japanese government demands safeguard against new boycott before evacuation of troops.

28. Committee of Nineteen drafts resolution for resubmission to the Assembly covering the withdrawal of Japanese troops.

29. Bomb thrown by a Korean at Shanghai wounds leading Japanese officials. Peace negotiations postponed as a result of the bombing.

30. League Assembly, in extraordinary session, with Japan abstaining, approves resolution covering the evacuation of Japanese troops from Shanghai area under supervision of a mixed commission.

May, 1932:

5. Representatives of China and Japan sign armistice.

9. E. S. Cunningham, United States Consul General at Shanghai, appointed Chairman of Joint Commission to assist in the arrangement for the evacuation of Japanese troops.

15. Premier Inukai of Japan assassinated by militarists in his home.

22. Viscount Makoto Saito appointed by the Emperor as nonpartisan Premier; forms new national Cabinet on the 25th.

June, 1932:

30. American, British, and French Ambassadors at Tokyo instructed to make representations to Japanese Foreign Office to bar seizure of Chinese customs offices by "Manchukuo" government.

July, 1932:

1. League Assembly defers further action on the Sino-Japanese conflict until receipt of the Lytton Commission report. Thirty-first Infantry Regiment, United States Army, leaves Shanghai for Manila.

22. Chinese government orders mobilization to defend Jehol and protests to League and Japanese government against Japanese invasion of Inner Mongolia.

23. Chinese government announces postal blockade against "Manchukuo" and refuses relations with the new government.

29. Chinese government declares an embargo on goods from Manchuria as a reprisal for the seizure of the customs offices by the "Manchukuo" government.

August, 1932:

8. Speech delivered by Secretary Stimson before the Council on Foreign Relations in New York interprets American policy in the Far East.

19. Japan warns Mayor Wu of Shanghai to check revival of anti-Japanese boycotts.

September, 1932:

15. Japan recognizes "Manchukuo" as an independent government and negotiates treaty of alliance.

15. Chinese government protests to League of Nations and to signatories to Nine-Power Treaty against Japan's recognition of "Manchukuo."

October, 1932:

2. Lytton Report made public in Geneva.

4. Japanese Cabinet rejects peace proposals outlined in Lytton Report and again affirms that it will not change its Manchurian policy.

15. Boycott activities against Japan are intensified in Peiping.

November, 1932:

20. Chinese government accepts the findings of the Lytton Commission.

21. League Council begins the consideration of the Lytton Report.

28. League Council decides to transmit Lytton Report and minutes of its session to Assembly.

December, 1932:

6. League Assembly meets to consider Lytton Report.

INTERNATIONAL FINANCE

December, 1931:

11. Bankers' conference meets in Berlin to consider extension of German short-term credits under "standstill" agreement.

13. Japan suspends the gold standard.

23. French Parliament votes that losses by Bank of France due to Great Britain's abandonment of the gold standard be assumed in part by the government.

23. Hungary declares moratorium on foreign debts.

January, 1932:

5. Austrian government notifies creditors of inability to continue amortization payments.

11. President Ortiz Rubio of Mexico announces that through an agreement reached with International Bankers' Committee foreign debt moratorium has been extended to January 1, 1934.

15. Bank of England grants further extension of its loan of 100 million schillings to National Bank of Austria.

23. Bankers' conference extends the German "standstill" agreement to February 28, 1933.

February, 1932:

1. Bank of England pays Federal Reserve Bank of New York balance of 125-million-dollar credit granted in August, 1931, to support the pound.

3. Federal Reserve Bank of New York, Bank of England, Bank of France, and Bank for International Settlements extend for one month the 100-million-dollar credit to the German Reichsbank.

8. Ecuador abandons gold-exchange standard.

29. The credit to the German Reichsbank is again renewed, but with provision for a 10 per cent amortization.

March, 1932:

1. Brazil plans to pay scrip for interest on external loans.
14. El Salvador declares general moratorium.
16. Mexican government declares silver money only legal tender.

April, 1932:

1. League of Nations Finance Committee recommends loan to Austria.
1. German government decrees that unfunded long-term and short-term credits not included in "standstill" agreement are to be treated as if included.
4. British Treasury makes final payment to American banks on 200-million-dollar credit granted in August, 1931.
11. Bank for International Settlements announces that it will renew for three months credits to the national banks of Austria, Hungary, and Yugoslavia.
15. Bulgaria declares partial moratorium.
15. Greece declares partial moratorium.
20. Chile suspends gold-exchange standard.
27. Greece suspends gold-exchange standard.

May, 1932:

11. Siam suspends gold standard.
13. Austrian government informs League of Nations that it must declare a transfer moratorium unless League provides further relief measures.
15. Peru suspends gold-exchange standard.
27. Austrian government postpones decision on transfer moratorium until after meeting of League committee appointed to study relief measures for Danubian states.

June, 1932:

9. Central Bank of Chile taken over by new government, which plans to seize all deposits of foreign currencies.
20. League Financial Committee urges governments of Great Britain, France, Italy, and Germany to make a loan of 300,000,000 schillings (about 42 million dollars) to Austria.
23. Austria declares partial transfer moratorium.

July, 1932:

1. British government establishes exchange equalization fund.
15. Austria extends scope of transfer moratorium.
29. Following protests from the United States, Great Britain, France, Italy, and Spain, Chilean government repeals decree declaring all foreign deposits in Chilean banks state property.

September, 1932:

3. Costa Rica enacts three-year moratorium on British and American bonds.

October, 1932:

13. Bolivia authorizes one-year moratorium on private debts.
31. Yugoslavia defers service on certain external bonds.

November, 1932:

14. International credit of 90 million dollars to the German Reichsbank extended for another three months.

25. Colombia authorizes moratorium on private debts.

LATIN AMERICA

ARGENTINA

February, 1932:

20. President Justo, after inauguration, lifts state of siege in force since outbreak of revolution.

March, 1932:

29. President Justo advises Congress that all financial decrees of the late provisional government will be valid in the future unless changed by constitutional measures.

September, 1932:

28. Chamber of Deputies votes to rejoin League of Nations but withholds recognition of Monroe doctrine.

BOLIVIA

June, 1932:

15. Bolivian forces capture Paraguayan fort in the Chaco; hostilities thus begun continue throughout the year.

July, 1932:

21. Renewal of Chaco dispute brought to the attention of League of Nations by Bolivia complaining of Paraguayan aggression.

27. Counter-charge to Bolivian complaint submitted to League by Paraguay.

August, 1932:

1. Paraguay protests to League of Nations, accusing Bolivia of having violated Articles X and XI of the League Covenant.

3. Nineteen nations belonging to the Pan-American Union send identic notes to Bolivia and Paraguay invoking the Stimson doctrine in the Americas.

September, 1932:

22. Neutral Commission, representing five American governments, proposes to send delegation of disinterested military officers to the Chaco to supervise maintenance of a truce.

27. League Council appoints a committee to study the developments in the Chaco dispute.

October, 1932:

3. League Council sends telegram to the Neutral Commission supporting its plans for a truce in the Chaco district.

November, 1932:

25. League Council cables to Bolivia, Paraguay, and neutrals, urging an early truce and settlement of the dispute over the Chaco.

BRAZIL

July, 1932:

10. Government reports outbreak of revolt in the state of São Paulo.

September, 1932:

29. Rebels ask for truce owing to shortage of food supplies. Truce arranged with federal government to discuss peace terms.

October, 1932:

3. End of civil war in Brazil with surrender of rebels in state of São Paulo.

CHILE

April, 1932:

7. Cabinet resigns, following run on Central Bank of Chile; Señor Victor Robles forms new Coalition Cabinet.

8. Martial law declared in Chile to prevent spread of disturbances; new Cabinet sworn in.

June, 1932:

4. Military junta set up by Colonel Grove and Señor Carlos Davila after the overthrow of the constitutional régime.

8. Mexico recognizes new régime.

17. Revolt of army and navy results in the ousting of Colonel Grove and his associates and the reinstatement of Señor Davila at the head of the new junta.

July, 1932:

8. New Cabinet formed with Señor Davila as Provisional President.

15–30. New Government recognized by Peru, China, Mexico, Argentina, Cuba, and Germany.

August, 1932:

13. Martial law declared throughout the country.

September, 1932:

13. Provisional President Davila is ousted by a group of army and navy officers and General Bartolome Blanche appointed his successor. Date of general elections set for October 30.

October, 1932:

1. Provisional President Blanche resigns.

2. Abraham H. Oyanedel assumes office as Provisional President; revolt continues.

21. Recognition extended by the United States and Great Britain to the Oyanedel Government.

30. Former President Arturo Alessandri elected President.

COLOMBIA

September, 1932:

1. Seizure by Peru of Colombian settlement of Leticia on the upper Amazon River.

30. Peru proposes arbitration to Colombia over the Leticia incident.

October, 1932:

1. Colombia rejects arbitration offer.

13. Colombia again refuses arbitration offer on the ground that such arbitration would not be in accordance with treaty of 1922.

23. Peru again proposes arbitration to Colombia over Leticia incident.

COSTA RICA

November, 1932:

9. President Ricardo Jimenez announces intention of his government to denounce five-power treaty of 1923 between Central American countries before January 1, 1933.

December, 1932:

24. Government formally denounces five-power treaty.

HAITI

September, 1932:

3. The United States and Haiti sign treaty providing for the withdrawal of marines by 1935. Treaty rejected by Haitian National Assembly on September 19.

PARAGUAY (See BOLIVIA)

PERU (See COLOMBIA)

TARIFFS

UNITED STATES

January, 1932:

9. House of Representatives, by a vote of 214 to 182, passes a bill providing for an international conference on tariffs and for other changes in tariff policy.

March, 1932:

30. Resolution adopted by American Chamber of Commerce in Paris urging United States government to take action to obtain relief for American exporters from losses sustained through French quotas.

April, 1932:

1. Senate passes bill for tariff conference by a vote of 42 to 30.

12. Reed resolution adopted in the Senate for investigation of the effect on foreign trade of the depreciation in value of foreign currencies.

30. Tariff bill as amended by conference committee goes to the President.

May, 1932:

11. Bill is vetoed by President Hoover.

January, 1932:

22. Cabinet waives precedent of unanimity rather than break up in disagreement over new tariff measure.

February, 1932:

3. New tariff measure given precedence in House of Commons to assure an early passage.

4. Tariff bill calls for duties of 10 per cent on all imports not already dutiable or on the free list. Only one-quarter of American goods will be duty-free under new tariff.

9. House of Commons passes tariff bill by a vote of 452 to 76.

April, 1932:

21. General tariff increases from 10 to 20 per cent on manufactured goods, total duties of 25 and 30 per cent on semi-luxury and luxury articles, and 33⅓ per cent increases on steel are to be effective as of April 26 for a minimum period of three months.

September, 1932:

2. Announcement made of imposition of additional *ad valorem* duties on a limited list of articles from non-Empire countries.

28. Viscount Snowden, Sir H. Samuel, and Sir A. Sinclair resign owing to differences over tariff questions after ratification of the agreements reached at the Ottawa conference.

October, 1932:

21. British Treasury order provides for the continuation of 33⅓ per cent duties on steel and iron for a further period of two years; United States Department of Commerce is notified of this decision.

OTTAWA CONFERENCE AND AGREEMENTS

July, 1932:

21. Opening of Imperial Economic Conference at Ottawa.

23. Dominions unite in demand for a larger share of Great Britain's trade.

25. Canadian government demands suspension of trade with Russia.

August, 1932:

11. Committee on Promotion of Trade within the British Empire recommends the gradual adoption of uniform "Empire content."

20. Twelve separate agreements signed at conclusion of Ottawa conference.

October, 1932:

12. Agreements between Great Britain and Canada, giving preference to British products, go into effect pending ratification by Parliaments.

14. New Zealand Parliament approves Ottawa trade agreement with Great Britain.

November, 1932:

3. Ottawa agreement between Great Britain and Canada is approved by a vote of 416 to 68 in the British House of Commons.

16. Ottawa agreement approved by Australian House of Representatives.

22. Canadian House of Commons approves agreements negotiated by the Dominion at Ottawa.

TARIFFS IN OTHER COUNTRIES

January, 1932:

19. Germany decrees new tariffs on imports from countries with depreciated currencies.

28. Ambassador Edge protests to France on behalf of the United States against French commodity quotas on imports from the United States.

February, 1932:

16. Austrian government notifies Great Britain, France, Italy, and Germany that she must impose quotas on imports.

March, 1932:

2. American Chamber of Commerce in Paris protests against new French import quotas.

29. French Senate passes bill raising import duties on manufactured goods.

31. Announcement made in France of new quotas effective April 1 to June 30; affect chiefly American imports.

April, 1932:

11. Chancellor Karl Buresch of Austria announces intention of his government to negotiate separate preferential tariffs with individual states.

June, 1932:

1. Ambassador Edge and Premier Tardieu sign agreement covering most-favored-nation treatment on imports from the United States.

September, 1932:

22. French government is willing to grant *de facto* but not *de jure* most-favored-nation treatment to the United States.

October, 1932:

1. In effort to change high protective policy, Argentine Chamber of Deputies appoints Committee of Nine to study possible reforms in customs laws.

WAR DEBTS AND REPARATIONS

December, 1931:

7. Young Plan Advisory Committee meets at Basle to discuss reparations.

10. In a special message to Congress, President Hoover urges ratification of the moratorium and revival of the World War Foreign Debt Commission.

14. Representative Collier introduces a joint resolution authorizing postponement of the amounts payable to the United States from foreign governments during the fiscal year 1932 and their repayment over a 10-year period beginning July 1, 1933.

17. The House Committee on Ways and Means amends the moratorium resolution by declaring against cancellation or reduction of war debts.

18. Moratorium resolution, as amended, passes the House by a vote of 318 to 100.

19. Moratorium resolution reported favorably to Senate by Finance Committee.

22. Moratorium resolution passed in the Senate by a vote of 69 to 12.

23. President Hoover signs the moratorium resolution.

23. Advisory Committee at Basle reports that Germany is unable to resume conditional reparation payments at expiration of moratorium; urges immediate adjustment.

30. Germany's creditors are invited by Great Britain to meet at Lausanne on January 18 to discuss reparations.

January, 1932:

9. Chancellor Bruening declares that Germany can no longer pay reparations.

10. British government announces that reparation conference at Lausanne has been postponed to January 25.

11. Report of Young Plan Advisory Committee approved by World Bank Board in Basle.

19. Chancellor Bruening advises British Ambassador that Germany will not accept extension of moratorium but will demand definite adjustment of reparations question before July 1.

20. Because of a deadlock in advance negotiations, Lausanne conference is postponed a second time and no new date is set for meeting.

February, 1932:

13. British Foreign Office announces that postponed reparation conference will be held at Lausanne in June.

May, 1932:

12. British government postpones decision on debts due the United States until after Lausanne conference.

June, 1932:

7. French government rejects British proposal for complete cancellation of reparations.

8. Prime Minister MacDonald and Sir John Simon are invited by Premier Herriot to visit Paris and discuss program for the Lausanne conference.

16. Lausanne reparations conference opens, Prime Minister MacDonald presiding.

17. Great Britain, France, Italy, Belgium, and Japan agree to suspend payments of intergovernmental debts during the life of the conference.

21. Premier Herriot proposes a moratorium for several years, which is to be terminated by the payment of a lump sum by Germany.

22. German delegation at Lausanne conference proposes five-year economic pact in exchange for the cancellation of reparations.

25. Secretary Stimson denies report that the United States and Great Britain signed a "gentlemen's agreement" on arms limitation and the cancellation of war debts.

30. Greece notifies United States government that she will postpone payment on debt, as permitted by her agreement.

July, 1932:

4. Foreign Minister Grandi, the Italian delegate at Lausanne, suggests all-round cancellation of war debts by European governments.

8. Reparation agreement reached at Lausanne conference. Germany will give bonds in the amount of 3,000,000,000 gold reichsmarks, negotiable after three years, as final settlement. World economic conference is also decided upon.

9. Reports are current of "gentlemen's agreement," making ratification of reparation settlement depend on new arrangement between Germany's creditors and the United States.

11. Neville Chamberlain, Chancellor of the Exchequer, declares in the House of Commons that representatives of the United States were consulted during the conference. This statement is later retracted or explained away.

11. Secretary Stimson says that no member of the Department of State participated in the Lausanne conference.

12. Prime Minister MacDonald, in statement to the House of Commons, declares that no debt pledge was given by the United States.

13. France and Great Britain sign an Accord of Confidence.

14. British government denies that new Anglo-French accord represents a "united front" against the United States. France and Great Britain publish the official text of the "gentlemen's agreement."

14. Premier Herriot declares that he was misquoted in his statement that France and Great Britain were united for debt talks.

14. In a letter to Senator Borah, President Hoover denies that the United States was consulted on the Lausanne agreements and warns Europe against offering a "united front" to the United States.

August, 1932:

11. Prime Minister MacDonald and Premier Herriot reach full and friendly understanding after discussion of matters concerning the Lausanne conference.

September, 1932:

13. Estonia, Latvia, and Poland notify the United States that they will postpone for two years payment on their debts, as permitted by their agreements.

November, 1932:

10. Greece defaults on payment due the United States. Hungary serves notice that she will not be able to meet the payment due on December 15.

10. The United States receives notes from Great Britain and France asking for a revision of the war debts and suspension of payments due December 15.

14. President-elect Roosevelt accepts President Hoover's invitation to discuss the debt situation.

15. Belgium asks for the suspension of payment due December 15.

22. Czechoslovakia and Poland ask for revision of their debt agreements and suspension of payments due December 15.

22. Informal debt conference between President Hoover and President-elect Roosevelt.

23. Text of Hoover and Roosevelt statements on war debt conference is published.

23–26. Department of State advises debtor nations that their requests for the revision of war debts depend upon action of Congress.

28. Latvia asks for revision of her debt agreement and suspension of payment due December 15.

December, 1932:

1. Second British note on the debt situation conveys warning that December 15 payment, if not suspended, will imperil Lausanne agreement and trade with the United States.

2. Second note from French government emphasizes the necessity of a readjustment after the suspension of German reparation payments.

13. French Chamber of Deputies, by a vote of 402 to 187, refuses to authorize payment on American debt due December 15, and Herriot Cabinet resigns.

15. Five debtors of the United States defer payments, and six make the payments due.

INDEX

Accord of Confidence, reached at Lausanne between Great Britain and France, 148, 153, 244, 327, 328, 340

Agriculture, decline in farm income, 6; decline in crop values, 43; yield and value of United States crops, 299

Aldrovandi-Marescotti, Count, Italian member of Lytton Commission, 197n

Alessandri, Arturo, elected President of Chile, 56; 336

Aloisi, Baron Pompeo, Italian representative at Geneva, 255n

American Federation of Labor, 100

Araujo, Arturo, deposed as President of El Salvador, 57

Argentina, 335, 339; American investments in, 51-52; flow of capital from creditor nations to, 70-71; dispute with Chile, 60; dispute with Uruguay, 60; adopts exchange control, 79, 283; foreign trade in 1930-31, 83; external debt, 277; suspends gold payments, 283; prices in, 298

Armaments, limitation of, Disarmament Conference convenes at Geneva, 229; American policy, 227-228; American proposals, 229-239, 310 ff., 321; qualitative disarmament accepted in principle, 233-234; contrasting French and English views on, 235; conference deadlocked, 235; Hoover plan, 237, 322; reasons for its acceptance by Italy, Germany and Russia, 238-239; American delegation avoids entanglements with European revisionist bloc, 240-244; resolution of July 23, 245, 314, 322; Germany withdraws from conference, 246, 322; later negotiations, 248-249; efforts to placate Germany, 249-254; five-power conversations, 254-256; five-power declaration of December 11, 1932, 319; Germany demands arms equality, 246; demand referred to League, 249; discussions of naval questions, 256; personnel of United States delegation at Disarmament Conference, 229-230, 321

Australia, flow of capital to, 70-71; foreign trade in 1930-31, 83; at Ottawa Conference, 90, 94n; agreement with Great Britain, 95; on "Empire content," 100; suspends gold payments, 283; adopts exchange control, 283; production index in, 298

Austria, appeals to powers for assistance, 28; declares partial moratorium, 79, 334; adopts exchange control, 79, 283; adopts import quotas, 81, 284; adopts import licenses, 82; value of exports and imports in 1930-31, 83; short-term debt, 107-109; payments due United States in 1930-31 and 1932-33, 272

Austro-German Customs Union, 28

Baker, Newton D., on revision of war debts, 182, 183; advocates economic sanctions in Sino-Japanese dispute, 215

Balbo, General Italo, at Disarmament Conference, 242

Baldwin, Stanley, at Ottawa Conference, 90, 92, 94

Bank for International Settlements,

334; appoints committee to investigate Germany's capacity to pay reparations, 17; extends loan to Reichsbank, 26, 333
Bank of England, extends loan to Reichsbank, 26, 333
Bank of France, 333; extends loan to Reichsbank, 26, 27, 333
Bankruptcies, 7, 41
Beaverbrook, Lord, 91
Belgium, exports and imports in 1930-31, 84; signs treaty for reduction of tariffs, 102; withdraws gold from United States, 117; signs agreement to postpone intergovernmental debts during Lausanne conference, 142n, 340; asks for suspension of payment on war debt, 170, 341; defers December 15 payment, 174; payments due United States 1931-32 and 1932-33, 271; adopts import quotas, 284
Benes, Eduard, Czechoslovakian Foreign Minister, on Danubian customs union, 28; *rapporteur* at Disarmament Conference, 231
Bennett, Richard B., Canadian Prime Minister, at Ottawa conference, 91, 92
Berwick, British cruiser, arrives in Shanghai, 330
Blanche, General Bartolome, 336; Provisional President of Chile, 56
Bolivia, 334, 335; American capital invested in, 51-52; defaults, 80; external debt, 277; suspends gold payments, 283; establishes exchange control, 283
See also Chaco dispute
Bonds, foreign, decline in value, 9; issues in United States from 1927-1932, 78
See also Foreign loans
Bonus bill, 324; returned with unfavorable report from Ways and Means Committee, 126; passed by House, 126; defeated in Senate, 126-127
Borah, Senator William E., on war debts, 185, 341; on Far Eastern policy, 213, 231, 232
Boycott, anti-Japanese, 199-200, 330, 332; economic sanctions urged in United States, 214, 215
Brazil, 334; American investments in, 51-52; civil war, 53, 336; adopts exchange control, 79, 283; defaults, 80; foreign trade in 1930-31, 83; external debt, 277; suspends gold payments, 283
Briand, Aristide, former French Premier, illness, 21; death, 326
Bruening, Heinrich, German Chancellor, 340; statement on reparations, 20, 21; forced to resign, 135
Budget, United States, 325; efforts to balance, 122
Buell, Raymond Leslie, on Lytton Commission, 225
Bulgaria, 334; adopts exchange control, 79, 283
Buresch, Karl, Austrian Chancellor, 28, 326, 339
Butler, Nicholas Murray, on Sino-Japanese dispute, 215

Cadogan, Alexander, British representative at Geneva, 255n
Canada, 338; flow of capital from creditor nations to, 70-71; adopts import surtaxes, 82; value of imports and exports in 1930-31, 83; Imperial Economic Conference at Ottawa, 90-96; tariff relations between United States and Dominion, 97; affected by American tariffs, 98; direct American investments and branch factories in, 98; suspends gold payments, 283; index of production, 298; estimated number of unemployed in, 299
Car loadings, decline of, 38
Chaco dispute, between Bolivia and Peru, 229, 334, 335; work of Commission of Inquiry (Neutral Commission), 65; case before the League, 66; efforts of Pan-American group and League Council to effect peaceful settlement, 66; Pan-American group invokes Stimson doctrine, 66; text of Pan-American note invoking Stimson doctrine, 301

Chamberlain, Neville, British Chancellor of the Exchequer, 140, 341; on tariffs, 89; on "Gentlemen's Agreement," 145, 147; on war debts, 173
Chang Hsueh-liang, Marshal, 194, 195
Chapei, suburb of Shanghai. *See* Manchuria
Chile, 334, 336; American investments in, 51-52; revolutions in, 54-56; new elections, 56; recognition of new government, 57; adopts exchange control, 79, 283; defaults, 80; value of exports and imports in 1930-31, 83; external debt, 277; suspends gold payments, 283
Chinchow, attacked and occupied by Japanese, 195, 329
Claudel, General Henri, French member of Lytton Commission, 197n
Collier, Representative James W., 339
Colombia, 335, 337; American capital invested in, 51-52; dispute with Peru over seizure of Leticia, 61; Peru proposes arbitration, 61; offer rejected by, 61-62; adopts exchange control, 79, 283; moratoria, 80; value of exports and imports in 1930-31, 83; external debt, 277; suspends gold payments, 283
Congress, Seventy-second, changes in membership of, 1; loses contact with Administration in long interval between sessions, 2-3; ratifies moratorium but declares against cancellation or reduction of war debts, 12; development of foreign policies initiated in 1931 blocked by temper of, 13; efforts to revise tariff, 29 ff.; rejects pleas for embargoes against military aggressors, 214
Costa Rica, 334, 337; political disturbances in, 52; denounces five-power agreement between Central American governments, 59-60; external debt, 277; suspends gold payments, 283; adopts exchange control, 283
Crisp, Representative Charles R., on sales tax, 116
Cross, Representative O. H., quoted, 9
Cuba, American investments in, 51-52; political disturbances, 52; external debt, 277
Cunningham, Edwin S., United States Consul General at Shanghai, 202, 222, 332
Czechoslovakia, adopts exchange control, 79, 283; adopts import quotas, 81, 284; adopts import licenses, 82; value of exports and imports in 1930-31, 83; note to United States asking for suspension of December 15 payment, 170, 341; makes December 15 payment, 174; payments due United States, 1931-32 and 1932-33, 272

Danubian States, 328, 329; plans for relief of, 29; London conference for relief of, 29; note on Stresa conference, 287-288
Davila, Carlos, 336; heads military junta in Chile, 55; forced out of junta and reinstated after army and navy revolt, 55; deposed, 56
Davis, Norman H., United States representative at Disarmament Conference, 229, 249, 253, 254; statement on Germany's withdrawal from conference, 247
Dawes, Charles G., President Reconstruction Finance Corporation, 325
Democratic Party, platform statements dealing with foreign relations, 296-297
Denmark, adopts exchange control, 79, 283; value of imports and exports in 1930-31, 83; suspends gold payments, 283; adopts import quotas, 285
Dies, Representative Martin, quoted, 9
Dill, Senator Clarence C., advocates economic sanctions, 214

Disarmament. *See* Armaments, limitation of
Dominican Republic, external debt, 278
Doumer, Paul, President of France, assassinated, 136, 326
Duesterberg, Theodor, candidate for German Presidency, 133
Dulles, Allen, American representative at five-power conversations in Geneva on armaments and Germany's withdrawal from Conference, 255n

Economist (London), quoted, 96
Economy bill, 121, 323, 324; economy committee appointed to study means of curtailing expenses, 121
Ecuador, 333; revolution in, 52; external debt, 278; suspends gold payments, 283; adopts exchange control, 283
Edge, Walter Evans, United States Ambassador to France, 339; on French tariffs, 81
Egypt, suspends gold payments, 283
El Salvador. *See* Salvador
Embargoes, sought against Russian products at Ottawa conference, 93; urged in Congress against military aggressors, 214
Eslick, Representative Edward E., quoted, 10
Estonia, adopts exchange control, 79, 283; asks for postponement of December 15 payment, 169, 341; defaults on December 15 payment, 174; payments due United States in 1931-32 and 1932-33, 272; suspends gold payments, 283
Europe Nouvelle, quoted, 136
Exchange control, countries adopting, 283-284

Federal Reserve Banks, extension of loan to Reichsbank, 26, 333; increase in note circulation, 110; central banking policy, 118-119; authority to make loans extended, 130-131
Finland, adopts exchange control, 79n, 283; makes payment on war debt, 174; payments due United States in 1931-32 and 1932-33, 272; suspends gold payments, 283; adopts import quotas, 285
Flandin, Pierre Etienne, French Minister of Finance, statement on reparations, 21
Forbes, W. Cameron, United States Ambassador to Japan, 329
Foreign loans, international flow of capital in post-war period, 70-71; United States as creditor nation, 72; weakness in post-war lending, 73-74; investigation of sale of foreign securities in the United States, 75; check to lending after 1927, 78; State Department's policy on, 278
Foreign Policy Association, 225
Foreign trade, decline of, 43-45, 70; countries adopting import quotas, licenses and surtaxes, 81, 82, 284-286; imports and exports of fifteen debtor nations in 1930-31, 83; imports and exports of seven creditor nations in 1930-31, 84; quantity index of, 288
France, exports and imports in 1930-31, 84; adopts import quotas, 81, 285; repatriates credits from United States, 117; swing to the Left in 1932 elections, 135 ff.; at Lausanne, 142n; asks for suspension of December 15 payment to United States and revision of debt agreement, 170, 176, 341; Chamber of Deputies votes to defer December 15 payment, forcing resignation of Herriot Cabinet, 174, 342; defers December 15 payment, 174; refers note from Germany on arms equality to League, 246, 249; quantity index of foreign trade, 288; production index, 298; commodity price index, 298; number of unemployed, 298
Frohwein, Hans, German representative at Geneva, 255n

Garner bill. *See* Garner, John Nance
Garner, John Nance, Speaker of House of Representatives, 119, 128, 129, 130, 325
"Gentlemen's Agreement." *See* Lausanne Conference
Germany, second "standstill" agreement, 24 ff., 109, 334; flow of capital to, 70-71; adopts exchange control, 79, 283; adopts import quotas, 81, 285; adopts import surtaxes, 82; short-term indebtedness, 107-109; swing to the Right in Presidential elections, 133-134; elections in German states, 134; asks for postponement of payments to United States, 169; estimates of total reparation payments, 272; private indebtedness, 282; foreign trade quantity index, 288; production index, 298; commodity price index, 298; number of unemployed, 299
See also Reparations, Lausanne Conference, and Armaments, limitation of
Gibson, Hugh, United States representative at Disarmament Conference, appointed, 229, 321; presents American program, 230; on "qualitative" disarmament, 233; Hoover plan, 237
Glass, Senator Carter, offers substitute for Goldsborough bill, 125, 324
Glass-Steagall Act, 110, 119, 324
Glover, Representative D. D., quoted, 10
Gold, substitution of gold-bullion for gold-coinage standard, 105; "free" gold, 111; withdrawals from the United States, 117; return flow to the United States, 156; countries suspending gold standard or gold exchange standard, 283-284
Goldsborough bill, 123, 324
Goldsborough, Representative T. Alan, 33n
Grandi, Dino, Italian Foreign Minister, at Lausanne, 143, 340; at Disarmament Conference, 238, 242; resignation, 242, 328
Great Britain, 328, 334, 338, 340, 341, 342; adopts exchange restrictions, 79, 284; exports and imports in 1930-31, 84; abandons free trade, 88-89; evolution of protective system, 89-90; at Ottawa Conference, 94, 95; short-term indebtedness, 107-109; at Lausanne, 142n; asks for suspension of December 15 payment due the United States and revision of debt agreement, 170 ff.; makes December 15 payment, 174; payments due United States in 1931-32 and 1932-33, 271; trade with foreign countries and other parts of Empire, 289; suspends gold payments, 284; foreign trade index, 288; commodity price index, 298; number of unemployed, 299
Greece, 334, 341; adopts exchange control, 79, 283; adopts import quotas, 81, 285; asks for postponement of debt payment, 168; defaults on non-postponable loan, 169-170; payments due United States in 1931-32 and 1932-33, 272; suspends gold payments, 283
Grove, Colonel Marmaduque, 336; leader of *coup d'état* in Chile, 55; exiled, 55; in national election, 56
Guatemala, external debt, 278

Haiti, 337; external debt, 278
Harbin, occupied by Japanese, 330
Harrison, Senator Pat, introduces new tariff bill, 31; quoted on war debts, 183
Havas News Agency, 146
Hawley, Representative Willis C., 33n
Henderson, Arthur, former British Foreign Secretary, appointed President of Disarmament Conference, 231; at Geneva Disarmament Conference, 231, 236-237
Herriot, Edouard, 326, 340, 341; Premier, 137; discusses reparations prior to Lausanne Confer-

ence, 139; at Lausanne, 141 ff.; at five-power conversations in Geneva, 251, 254 ff., 323
Hindenburg, President Paul von, re-elected President of Germany, 134; forces resignation of Bruening Cabinet, 135, 327
Hitler, Adolf, Nazi leader, 21, 327; seeks Presidency, 133; defeated, 134
Hoarding, campaign against in the United States, 323
Honduras, revolution in, 52, 60; external debt, 278
Hoover Plan. *See* Armaments, limitation of
Hoover, Herbert, message on foreign affairs, 11; signs moratorium bill, 13; vetoes tariff bill, 31, 32, 337; proposes creation of Reconstruction Finance Corporation, 113, 324; urges speed in balancing the budget, 120, 325; proposes three-point program for the relief of unemployment, 127; criticizes Garner bill, 128; vetoes Garner bill, 130, 326; speech of acceptance, 161; on tariffs, 160, 162, 163, 164; on adherence to World Court, 165; on Far Eastern Affairs, 165; on arms reduction, 165; proposes arms cut of one-third, 237 ff., 322; on war debts, 167, 172-173; message to Congress on war debts, 172; invites President-elect to confer on debt problems, 179, 341; agrees with President-elect Roosevelt on fundamental principles, but disagrees on procedure, 179 ff.; appoints delegates to Disarmament Conference, 321; on anti-hoarding campaign, 323
Houghton, Alanson B., advocates economic sanctions in Sino-Japanese dispute, 215
Houston, United States cruiser, ordered to Shanghai, 205, 330
Hugenberg, Alfred, candidate for German Presidency, 133
Hull, Representative Morton D., advocates economic sanctions, 214
Hungary, 333; flow of capital from creditor nations to, 70-71; adopts exchange control, 79, 283; short-term indebtedness, 107-109; asks United States to postpone December 15 payment, 170, 341; defaults on non-postponable loan, 174; payments due the United States in 1931-32 and 1932-33, 272

Ibañez, General Carlos, former President of Chile, 54
Imperial Economic Conference, meets at Ottawa, 90; imperial preference, 91; other problems, 92-93; trade agreements negotiated, 94, 96
See also Canada
Import quotas, licenses and surtaxes, countries adopting, 81, 82, 284 ff.
India, flow of capital to, 70-71; adopts exchange control, 79, 283; at Ottawa conference, 90, 94n; suspends gold payments, 283
Institute of Economics, estimate of German reparation payments, 272
Institute of Pacific Relations, 225
International Settlement. *See* Manchuria—Shanghai incident
Intransigeant, French newspaper, quoted, 168
Inukai, Tsuyoshi, Premier of Japan, 329, 332
Irish Free State, at Ottawa conference, 90; on "Empire content," 100; suspends gold payments, 283
Italy, 328; exports and imports in 1930-31, 83; at Lausanne conference, 142n; makes December 15 payment due the United States, 174; payments due United States in 1931-32 and 1932-33, 272; adopts import quotas, 285

Japan, flow of capital to, 70-71; adopts import licenses, 82; exports and imports in 1930-31, 83; at Lausanne conference, 142n; recognizes "Manchukuo", 223-224; suspends gold payments, 283; adopts exchange control, 283; commodity price index, 298; pro-

duction index, 298; estimated number of unemployed, 299
See also Manchuria
Jimenez, Ricardo, President of Costa Rica, 59-60, 337
Johnson, Senator Hiram, quoted, 10; resolution to investigate sales of foreign securities, 75
Johnson, Nelson, American Minister to China, 219
Jones, Senator Wesley L., 33n
Justo, Augustin, President of Argentina, 335

Kellogg Pact. *See* Pact of Paris
Kent, British flagship, at Shanghai, 209, 331
Knox, Colonel Frank, 323
Knutson, Representative Harold, 33
Kredit Anstalt, failure of, 3, 108

La Follette, Senator Robert M., jr., 8
La Guardia, Representative Fiorello H., attacks sales tax, 115; supports Garner bill, 129
Lampson, Sir Miles, British Minister to China, 219, 331
Latin America, deepening of economic depression, 49; defaults in, 49; extent of defaults on external debt, 50; financial stake of United States investors, 50-51; economic difficulties, 52; new political disturbances, 52; external debt of various countries, 277-278
Latvia, adopts exchange control, 79, 283; adopts import quotas, 81, 285; asks for postponement of December 15 payment to United States, 170, 342; makes payment, 174; payments due United States in 1931-32 and 1932-33, 272
Lausanne Conference, 340, 341; postponed because of French and German elections, 21, 23, 132-133; details of reparation settlement, 138-139, 144-145; agreement to reserve intergovernmental debts during the conference, 142; "Gentlemen's Agreement", 145-147; Accord of Confidence, 148 ff., international significance of conference, 150 ff., text of reparation agreement, 272 ff.
Laval, Pierre, 16, 17, 326; protests against Bruening statement on reparations, 21
League of Nations, Chaco dispute brought to attention of, 66; efforts to effect settlement in Chaco dispute, 66 ff.; approves membership of Lytton Commission, 197, 329; invokes Stimson doctrine in Far Eastern dispute, 198, 217, 331; Shanghai incident before the League, 206 ff.; appoints Consular Committee to report on Shanghai dispute, 207; convokes extraordinary session of Assembly to consider Shanghai dispute, 208; resolution of March 4, 1932, on Shanghai dispute, 216; resolution of March 11, 1932, invoking Stimson doctrine, 217; appoints Committee of Nineteen to study whole Sino-Japanese dispute, 218
Lebrun, Albert F., President of France, 137, 326
Leticia. *See* Colombia
Lindsay, Sir Ronald, British Ambassador to United States, confers with Secretary Stimson on Shanghai dispute, 205
Lithuania, asks United States for postponement of December 15 payment, 170; makes December 15 payment, 174; payments due United States in 1931-32 and 1932-33, 272
Litvinoff, Maxim, Russian delegate at Disarmament Conference, 238, 243
Locarno Treaties, 253
London Naval Treaty, 239, 246; France proposes revision of, 254, 257
Lowell, A. Lawrence, urges economic sanctions, 215
Luxemburg, signs treaty for reduction of tariffs, 102
Lytton Commission, 36, 193, 218, 225, 329, 330; summary of findings, 304 ff.

Lytton, Lord, elected Chairman of Manchurian Commission, 197n, 330
Lytton Report, 199, 210, 222, 224, 225 ff., 333

MacDonald, J. Ramsay, British Prime Minister, 341; at London Conference for relief of Danubian States, 29, 328; invited to Paris to discuss program for Lausanne Conference, 139, 140, 340; at Lausanne Conference, 141 ff.; on Germany's withdrawal from Disarmament Conference, 250 ff., 322
McCoy, General Frank, appointed Chairman of Commission of Inquiry in Chaco dispute, 65; appointed member of Lytton Commission, 197n
McKenna duties, in Great Britain, 86, 95
"Manchukuo." *See* Manchuria
Manchuria, consideration of Far Eastern questions postponed in the United States pending report of Lytton Commission, 35; interest of Western powers in Japan's Manchurian policy, 192; Manchurian events impinge on Western post-war peace covenants, 193; Lytton Commission appointed by League, 193, 197, 329; renewal of Japanese advance in Manchuria, 194; United States government promulgates Stimson doctrine, 195; attitude of European powers toward the pronouncement, 196; League resolution of March 4 on Shanghai dispute, 216; League Assembly adopts Stimson doctrine, 198, 217; appointment of Commission to study whole Sino-Japanese dispute, 218; Lytton Commission submits its report, 225-226; summary of findings, 304 ff.; new state of "Manchukuo", 210 ff.; declaration of independence by "Manchukuo", 198, 210; Henry Pu-yi appointed Regent, 212; government recognized by Japan, 223, 224; treaty of alliance with Japan, 308; chronology of Far Eastern affairs, 329-333; anti-Japanese boycott precipitates trouble in Shanghai, 199; conciliatory efforts of Western powers, 205-206; the case before the League, 206; United States fleet in the Pacific, 212; question of economic sanctions, 216 ff.; Japanese withdraw from Shanghai, 222
Martinez, General Maximiliano, President of El Salvador, 57
Massigli, René, French representative at Geneva, 255n
Matos, Señor José, appointed by League to study developments of Chaco dispute, 67
Matsudaira, Tsuneo, Japanese delegate at Geneva, 239
Methodist Episcopal Church, Conference of, urges revision of war debts, 184
Mexico, 333, 334; American capital invested in, 51-52; dispute with Peru, 60; external debt, 278; suspends gold payments, 283
Meyer, Eugene, 325
Mills, Ogden L., 19-20; statement on tariffs, 162; on war debts, 182
Min Kuo Daily News, 200, 202
Montero, Juan Esteban, President of Chile, 54-55
Moratorium, Hoover, 5, 132, 137, 237, 340; ratified by Congress, 9-12; vote by States in Congress on ratification, 270 ff.
Mosconi, Antonio, Italian delegate at Lausanne, 145
Moses, Senator George H., statement on tariffs, 162
Mukden, attack on, 210, 225; Manchurian convention at, 212
Murai, Kuramatsu, Japanese Consul General at Shanghai, 203; injured by bomb, 221
Mussolini, Benito, 328

Nadolny, Count Rudolph, German representative at Geneva, 322
Nagaoka, Haruichi, Japanese representative in Geneva, 221

National Association of Mutual Savings Banks, urges revision of war debts, 184
National Credit Corporation, 111
Navy, United States, Pacific maneuvers, 212
Netherlands, value of exports and imports in 1930-31, 83; treaty for reduction of tariffs, 102; gold withdrawals from the United States, 117; import quotas, 285
Neurath, Baron Konstantin von, German representative at Geneva, 255n
Neutral Commission. *See* Chaco dispute
Newfoundland, at Ottawa Conference, 90, 91, 94n
New Zealand, 338; at Ottawa Conference, 90, 94n; agreement with Great Britain, 95; on "Empire content", 100; suspends gold payments, 283; adopts exchange control, 283
Nicaragua, Central American five-power agreement, 60; external debt, 278; adopts exchange control, 283
Nine-Power Treaty, 36, 197, 208, 213, 224, 228, 232
Nomura, Admiral Kichisaburo, replaces Admiral Shiozawa at Shanghai, 204; injured by bomb, 221
Norway, adopts exchange control, 79, 283; value of exports and imports in 1930-31, 83; designates member to Shanghai Consular Committee of Inquiry, 207; suspends gold payments, 283; adopts import quotas, 285

O'Brien, Robert L., Chairman of United States Tariff Commission, 34
Open Door, 196, 197, 228
Ottawa Conference. *See* Imperial Economic Conference
Oyanedel, Abraham Umberto, 336; Provisional President of Chile, 56

Pacheco, Leonidas, Foreign Minister of Costa Rica, 60
Pact of Paris, 160, 206, 213, 214, 215, 217, 218, 241, 252, 329
Painlevé, Paul, 326
Panama, external debt, 278
Papen, Franz von, appointed German Chancellor, 135; at Lausanne Conference, 142 ff., 327, 328
Paraguay, 335, 337; external debt, 278; establishes exchange control, 283; suspends gold payments, 283
See also Chaco dispute
Patman, Representative Wright, introduces bonus bill, 126
Paul-Boncour, Joseph, French delegate at Geneva, 239, 255n
Permanent Court of International Justice, 160, 165
Persia, suspends gold payments; adopts exchange control, 283
Peru, American capital invested in, 51-52; naval mutiny and attempted revolution, 52; dispute with Colombia, 61; dispute with Mexico, 60; defaults on external debt, 80; suspends gold payments, 284; external debt, 278
Philippines, 214, 232
Polish Corridor, 152
Politis, Nicolas, Vice-President of Disarmament Conference, 231
Poland, flow of capital to, 70-71; value of imports and exports in 1930-31, 83; asks for postponement of debt payment, 169, 170, 341; defaults on December 15 payment, 174; payments due United States in 1931-32 and 1932-33, 272; adopts import quotas, 286; production index, 298; estimated number of unemployment, 299
Portugal, suspends gold payments, 284; adopts exchange control, 284; adopts import quotas, 286
Prices, decline in the United States, 39; decline in security values, 40; decline in world prices, 45-46; index numbers for important countries, 298

Production, index numbers for important countries, 298
Pu-yi, Henry, Provisional President, or Regent, of "Manchukuo", 212, 331

Quo Tai-chi, Chinese Foreign Minister, 219, 222

Reconstruction Finance Corporation, 42, 113, 122, 127, 128, 129, 130, 324
Reed, Senator David A., 33n
Reichsbank, 333, 335; extension of loan to, 26, 27
Renkin, Jules, Belgian delegate at Lausanne, 145
Reparations Commission, estimate of German reparations payments, 272
Reparations, Germany seeks relief under terms of Young Plan, 17; Advisory Committee investigates Germany's capacity to pay, 17-18; official American attitude toward reparations and debts, 23; statement by Chancellor Bruening on reparations, 20; postponement of reparations settlement, 19; estimates of total German reparations, 272
See also Lausanne Conference
Republican party, platform statements dealing with foreign relations, 292
Revenue bill. *See* Tax Bill
Rhodesia, Southern, at Ottawa Conference, 90, 94n; Northern and Southern, suspends gold payments, 284
Robles, Victor, forms new Coalition Cabinet in Chile, 336
Roosevelt, Franklin D., on tariffs, 160-163; on World Court, 160, 165; on war debts, 160, 161, 162, 178; confers with President Hoover on war debts, 179 ff.; elected President, 165
Rosso, Augusto, Italian representative at Geneva, 255n
Rubio, Ortiz, President of Mexico, 333
Rumania, adopts exchange control, 79, 284; payments due United States in 1931-32 and 1932-33, 271
Runciman, Walter, at Lausanne Conference, 141
Russia, suspends gold payments, 284; embargo advocated at Ottawa, on lumber from, 93, 96

Saito, Viscount Makoto, new Premier of Japan, 332
Sales tax. *See* Tax Bill
Salvador, El, revolution in, 57; United States recognition policy, 57 ff.; foreign governments fail to follow American lead, 59; objects to five-power treaty of 1923 between Central American Republics, 59; new government recognized by Great Britain, France and other governments, 59, 334; external debt, 278; suspends gold payments, 284
Samuel, Sir Herbert, 141, 338
Sato, Naotaké, Japanese delegate at Geneva, 208, 209
Schleicher, General Kurt von, German Minister of Defense, 322, 328
Schnee, Dr. Heinrich, German member of Lytton Commission of Inquiry, 197n
Shanghai, Japanese attack on, 199-222. *See also* Manchuria
Shigemitsu, Mamoru, Japanese Minister to China, 219; injured by bomb, 221
Shiozawa, Admiral Koichi, in command of Japanese naval forces, 202, 204, 205, 330
Shirokawa, General Yoshinori, Japanese Commander in Chief, 204; injured by bomb, 221
Shouse, Jouett, 115
Siam, suspends gold payments, 284, 334
Simon, Sir John, 323, 328; invited to Paris to discuss reparations preliminary to Lausanne Conference, 140, 340; at Lausanne, 141; at Disarmament Conference, 234, 239; at five-power conversations on armaments, 254

Sinclair, Sir Archibald, 338
Smith, Alfred E., quoted on war debts, 184
Smoot, Senator Reed, 31; quoted on war debts, 183
Snell, Representative Bertrand H., quoted on war debts, 186
Snowden, Philip, 338
South Africa, adopts surtax, 82; at Ottawa Conference, 90, 94
Spain, adopts import quotas, 81, 285; suspends gold payments, 284; adopts exchange control, 284; designates member to Shanghai Consular Committee, 207
"Standstill" agreement. *See* Germany
Stimson doctrine, 35; invoked in Chaco dispute, 66, 335; invoked in Far Eastern dispute, 195 ff.; restatement of, 213; invoked by League of Nations in March 11 resolution, 217, 229, 253, 329, 331
Stimson, Henry L., Secretary of State, 323, 329, 330, 331, 341; note to French government on reparations, 22; on war debts, 179; on Far Eastern dispute, 196; on appointment of member to Shanghai Consular Committee, 207; consults with British Ambassador on Shanghai dispute, 205; letter to Senator Borah reaffirming Stimson doctrine, 213; approves action of League of Nations invoking doctrine, 218; speech before Council on Foreign Relations, 223, 229; visit to Geneva, 229, 236; cites interrelation between Washington Naval Treaty and Nine-Power Treaty, 213-214, 232; statement on Germany's withdrawal from Disarmament Conference, 247
Strawn, Silas H., President of United States Chamber of Commerce, on Sino-Japanese dispute, 215
Stresa Conference, 287
Sun Yat-sen, Dr., 226
Swanson, Senator Claude A., United States representative at Disarmament Conference, 229-230, 321
Sweden, exports and imports in 1930-31, 83; short-term indebtedness, 107-109; suspends gold payments, 284; adopts import quotas, 286; production index, 298; number of unemployed, 299
Swift, Linton B., statement on unemployment, 8
Switzerland, exports and imports in 1930-31, 83; withdraws gold from the United States, 117; adopts import quotas, 286

Tardieu, André, 326, 328, 329; on Danubian relief, 29; defeated in French elections, 136; resigns, 137; at Disarmament Conference, 230
Tardieu Plan. *See* Danubian States
Tariff, 337; Congress makes efforts at tariff revision, 29 ff.; passage of tariff bill in House, 30; in Senate, 31; vetoed by President, 31; tariffs on various products voted in tax bill, 31; Hawley-Smoot tariff act, 29, 35
Tariff Commission, United States, 29; submits report on depreciated currencies, 34, 35
Tax bill, 325; introduced in House, 114; attack on sales tax section, 115; revolt over sales tax section, 115-116, 119; sales tax defeated in House, 116; new bill adopted by House, 120; new bill passed by Senate, 120
Taxes, defaults by various States, 6-7
Thaelmann, Ernst, candidate for German Presidency, 133
Thomas, Senator Elmer, proposes bonus payments to ex-soldiers, 125
Times, New York, quoted, 168
Trans-Andine Railway, 60
Tsai Ting-kai, General, Commander of Chinese Nineteenth Route Army, 208
Turkey, adopts import quotas, 81, 286; suspends gold payments, 284; adopts exchange control, 286

Twentieth Century Fund, Committee appointed by, urges economic sanctions in Sino-Japanese dispute, 215

Uchida, Count Yasuya, Japanese Foreign Minister, 224
Unemployment, 7, 8; extent of, 7; wage deflation, 42; data for important countries, 299
United States, sentiment unfavorable to collaboration with Europe as depression deepens, 5 ff.; domestic relief demanded in lieu of help to other countries, 9; Administration adopts waiting attitude toward economic crisis, 13; consideration of war debts postponed until after election, 15; encourages other nations to seek settlement of their problems without American coöperation, 15; postpones consideration of Far Eastern question pending report of Lytton Commission, 35; conditions grow worse as settlement of urgent problems is deferred, 37; deflation of commodity prices, 39; weakness in security markets, 40; decline of new financing, 41; increase in unemployment, 42; wage reductions, 42-43; shrinkage of profits, 43-44; imports and exports in 1930-31, 83; liquidity crisis, 109 ff.; efforts to balance the budget, 119 ff.; international dangers from an unbalanced budget, 116-117; Administration's attitude toward increased taxation, 116; measures for defense of credit, 118; plans for safeguarding gold standard, 130; gold movements, 117-118; threat of inflation, 123; measures to prevent inflation, 130; short-term indebtedness, 107-109; approves League action invoking Stimson doctrine in Sino-Japanese dispute, 218; movement of capital to and from, 277; quantity index of foreign trade, 288; balance of international payments, 290; production index, 298; commodity price index, 298; yield of value of staple crops, 299; significant business indices, 299; dividend payments and railway earnings, 300
Uruguay, dispute with Argentina, 60; debt default, 80; external debt, 278; suspends gold payments, 284; adopts exchange control, 284
Uyeda, General Kenkichi, 330; injured by bomb, 221; signs Shanghai armistice, 222

Valera, Eamon de, President of League Council, on Chaco dispute, 67; on Lytton Report, 224
Vargas, Getulio, Provisional President of Brazil, 53
Venezuela, maintains her foreign exchange, 49; American investments in, 51-52; suspends gold payments, 284
Versailles Treaty, 150 ff., 246, 248, 249, 250, 251, 322
Vinson, Representative Carl, 33
Voelckers, Hans Hermann, German representative at Geneva, 255n

Wagner, Senator Robert F., 325; introduces relief bill, 128; bill passed in Senate and is compromised with Garner bill, 129
War debts, Greece, Poland, Estonia, Latvia and Germany ask for postponement, 168-169; Greece and Hungary default on non-postponable loans, 170; France and Great Britain seek suspension of their payments due December 15 and ask for revision, 170 ff.; President Hoover and President-elect Roosevelt confer on debts, 178; agree on fundamental principles but disagree on procedure, 179; British and French request for revision rejected, 170-172; American public opinion concerning debts, 181 ff.; arguments for and against revision, 175 ff.; changes in capacity of debtors to pay, 186 ff.; relation of war debts to world trade, 190 ff.; payments due United

States in 1931-32 and 1932-33, 271-272
Washington Naval Treaty of 1922, 227, 232, 246, 254
Weimar Constitution, 133
Weiszaecker, Baron Ernst von, German representative at Geneva, 255n
Wilson, Hugh R., 219; alternate member at Disarmament Conference, 229-230
Wilson, Woodrow, President, quoted on war debts, 177
Winter, G., candidate for German Presidency, 133
Woolley, Dr. Mary, United States delegate to Disarmament Conference, 230
Woosung forts, attacked by Japanese, 204; occupied by Japanese, 210, 331
World Court. *See* Permanent Court of International Justice
World Economic Conference, 94, 95, 258
World War Foreign Debt Commission, 12, 188, 339
Wu, Te-chen, General, Mayor of Shanghai, 206, 208, 332

Yangtse River, 198, 204
Yen, Dr. W. W., Chinese delegate in Geneva, invokes Articles X and XV in Shanghai dispute, 206, 215, 221, 330
Young Plan, 17, 18, 21, 22, 24, 132, 137, 138, 142, 143, 176
Yugoslavia, adopts exchange control, 79, 284; flow of capital to, 70-71; exports and imports in 1930-31, 83; adopts import quotas, 286